

Korea Banks

Initiating Coverage: Less NIM-ble than the Market Thinks

- **Preference order: BSFG, DGB FG, HFG, SFG** — We initiate on Korean banks with a less bullish view than the Street, believing the sector's 14E PB of 0.7x is unattractive against an ROE of just 6.7% and its forward PBR/ROE of +1sd vs. mean has already priced in earnings improvement in 14E. Our regional banks analyst is underweight Korean banks ([click here](#)), and our country strategist neutral given the low valuations of the domestic market. Based on our analysis of trends in 2003-13, *loan growth* and *NIM* will be critical stock drivers this year, followed by *PBR/ROE*. We initiate BSFG, DGB FG and HFG at Buys; SFG at Neutral.
- **Loan growth (winner BSFG): Focus on SME loans** — Loan growth was a major share-price driver in eight of the last 10 years. When the asset quality cycle is as benign as it is today, our analysis shows that margin-sensitive loan growth tends to dictate share-price movements. Of the three loan categories – large corporates, SMEs and households – SMEs offer banks most scope for growth and NIM expansion. BSFG's and DGB FG's 9-10% yoy loan growth should continue, on our estimates, and HFG last year began pushing SME loans.
- **NIM (winner BSFG): Focus on less low-cost funding (LCF)** — Contrary to consensus expectations, we expect NIMs to stay flat this year on fierce competition for loans/deposits on the one hand and refinancing of high-cost debentures on the other. Banks with smaller portions of LCF are better positioned to weather NIM declines as loan growth slows. BSFG, HFG and DGB FG have lower LCF to interest bearing liabilities than the industry average.
- **PBR/ROE (winner DGB FG): Sector at high end of historical range** — Banks outperformed the KOSPI 16% in 2013 on expectations for domestic and global economic recoveries and normalization of bank earnings. While such expectations are valid, we think banks' forward PBR/ROE valuations, currently at the top end of the historical range, already factor in earnings recovery. DGB FG and BSFG trade at forward PBR/ROE of 7.2x and 7.5x, vs. historical means of 7.2x and 7.1x.
- **Why are we Neutral on SFG?** — While the recent run-up in SFG shares have taken its PBR/ROE to 1sd above mean, we expect its loan growth and NIMs to hold up at around historical averages.

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Figure 1. Korean Banks: Valuation Snapshot

Company	Ticker	Ratings	Mkt Cap (US\$m)	TP (Won)	Shr Price (Won)	Upside (%)	P/E (x)		P/B (x)		ROE (%)	
							2014E	2015E	2014E	2015E	2014E	2015E
BSFG	138930.KS	Buy	3,054	19,000	16,150	17.6	8.6	8.7	0.9	0.8	10.2	9.6
DGB FG	139130.KS	Buy/1H	2,098	20,000	16,000	25.0	7.6	6.6	0.7	0.7	10.0	10.6
HFG	086790.KS	Buy	10,717	45,000	37,800	19.0	8.9	7.2	0.5	0.5	5.8	6.7
SFG	055550.KS	Neutral	22,075	49,000	47,600	2.9	11.3	10.5	0.8	0.8	7.4	7.6

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Investment Summary

Loan growth and NIM tend to be primary drivers of share prices in non-crisis times

Korea's banking sector is trading at what we think is an unattractive 2014E P/B of 0.7x, against an ROE of just 6.7%. Loan growth and NIM tend to be primary drivers of share-price outperformance in non-crisis times, and asset quality and capital adequacy are considered virtues in financial crises. We initiate on Korean banks with a less bullish view than the Street. Using a strategy based on loan growth, NIM and forward PBR/ROE, we rate DGB FG, BSFG and HFG at Buys, and SFG at Neutral.

Where do we differ from consensus?

- Korean banks are consensus buys, with the current valuation of 0.65x 2014E book seen as attractive. We believe the P/B should be viewed in conjunction with the 2014E ROE of just 6.7%.
- We think competition for both loan and deposit growth will hurt NIMs, whereas the Street is calling a rebound. Banks with less low-cost funding would be better off, in our view.

Our stock calls

- **Buy BSFG (TP W19,000):** The bank has the highest 2014E ROE in the sector, at 10.2%. A positive catalyst is that the Kyongnam Bank acquisition is seen as an ROE-accretive deal. We also like BSFG for its high organic loan growth of 10.2% yoy and low LCF share, which should help protect the NIM.
- **Buy DGB FG (TP W20,000):** Unnoticed by consensus is Daegu city's strong export growth, which is better than Korea's and should support the bank's sector-high loan growth of 9.5% yoy. The region's real estate recovery is the fastest and provides macro support. DGB FG's 2014E PB is 0.7x, against an ROE of 10.0%.
- **Buy HFG (TP W45,000):** HFG outperformed the most in 2013 largely due to high loan growth, which we think will continue in 2014. It trades at a 2014E PB of 0.5x against an ROE of 5.8% ROE. We think the ROE is undervalued by about 50bps because HFG has about W80bn goodwill amortization. The bank has NIM protection, thanks to its smallest LCF portion.
- **Neutral SFG (TP W49,000):** Contrarian call. Earnings contributions from non-bank affiliates are weakening and the stock's 2014E PB of 0.8x is at a 24% premium to the sector average. Upside risks are a global macro slowdown and SFG's strong brand value in credit management. Downside risk is non-bank affiliates' further earnings deterioration. We expect loan growth and NIMs to hold up and provide downside support.

Figure 2. Citi vs. Consensus Earnings

(Wbn, %)	Citi Estimates		Consensus		Diff (%)	
	2014E	2015E	2014E	2015E	2014E	2015E
BSFG	399	433	374	420	6.7%	3.3%
DGB FG	281	325	271	319	3.8%	2.0%
HFG	1,177	1,452	1,180	1,416	-0.2%	2.5%
SFG	2,053*	2,212*	2,157	2,456	-4.8%	-9.9%

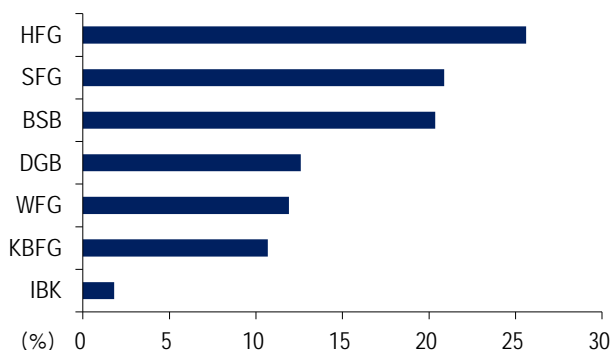
Source: Citi Research estimates and Bloomberg *includes pref share dividends

Forward PBR/ROE Looks Unattractive

Forward PBR/ROE of Korean banks are at the high end of the historical range

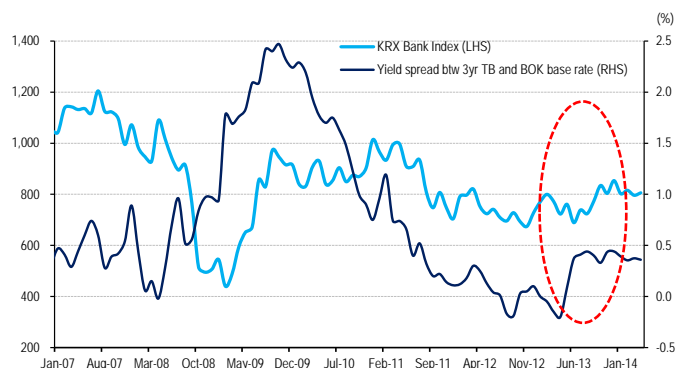
Korean banks outperformed the KOSPI by 16% in 2013 on expectations of domestic and global economic recoveries and normalization of bank earnings. The widening yield spread between the 3yr KTB and the BOK base rate reflected the market's optimism about economic recovery, leading bank shares to outperform, especially in 2H13. Economic recovery usually leads to better earnings given loan growth expansion, interest-rate hikes and likely stabilization of credit costs. While such expectations are valid, we think the positive expectations are already priced in, with the forward PBR/ROE of Korean banks at the high end of the historical range.

Figure 3. Korean Banks' Relative Performance in 2013



Source: KRX

Figure 4. Yield Spread and KRX Bank Index



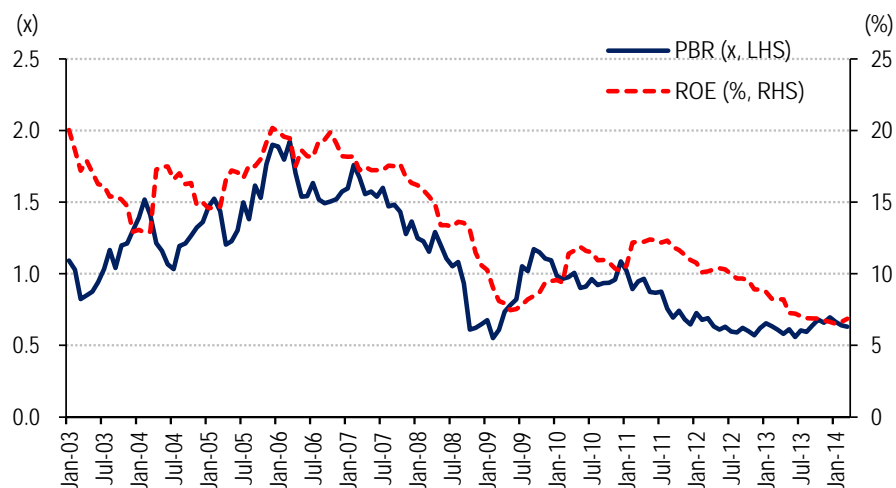
Source: Citi Research

Positives largely priced in, few upside catalysts

We believe the 2014E PB of 0.7x should not be viewed in isolation, but against ROE of only 6.7%

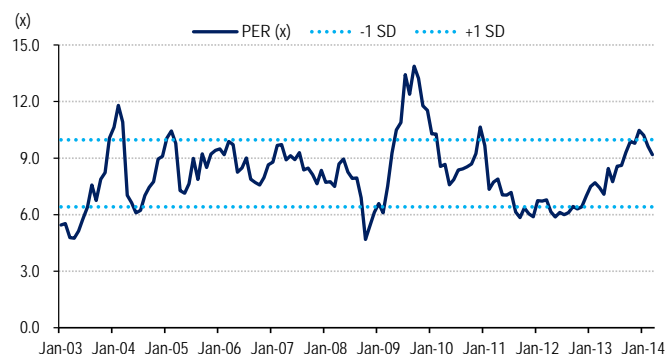
The consensus view is that Korean banks are attractive at 0.7x 2014E PB, despite last year's rally. We believe the 2014E PB should not be viewed in isolation, but against an ROE of only 6.7%. We have used historical market consensus estimates of PBR and ROE to derive forward PBR/ROE valuation. Figure 7 shows that forward PBR/ROE is +1sd above mean. Without significant ROE upside potential, we think valuation upside is limited. If we exclude the credit-card crisis in 2003 and the global financial crisis in 2008 in order to normalize the standard deviation range, even then forward PBR/ROE valuations are closer to +1sd.

Figure 5. Korean Banks: Forward PBR and ROE



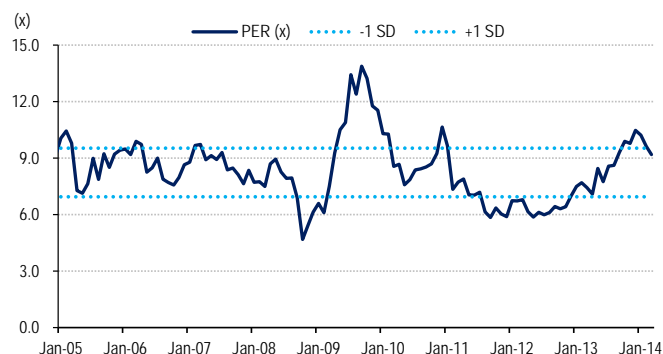
Source: DataStream, Citi Research

Figure 6. Forward PBR/ROE



Source: DataStream, Citi Research

Figure 7. Forward PBR/ROE Excluding Financial Crises



Source: DataStream, Citi Research

With PBR/ROE at about 1sd above the historical average, we think it can only be sustained if consensus ROE rises

Not much room for consensus earnings upside

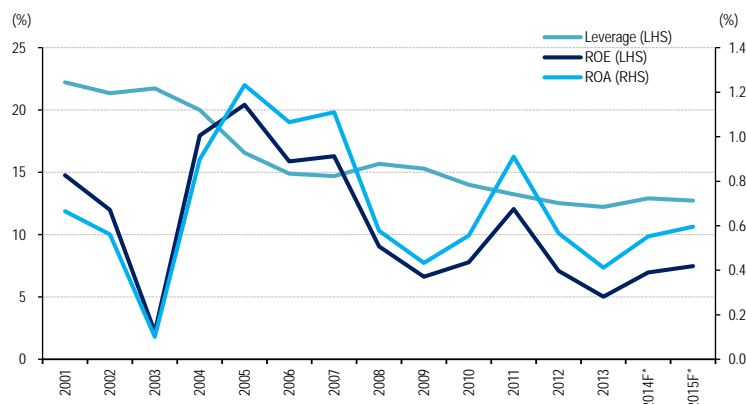
With forward PBR/ROE already about 1sd above the historical average, we think it can only be sustained if consensus ROE rises. The market expects a 2014 ROE of 6.3%, in line with our estimate of 6.7%. Market expectations for 2015 and 2016 are 6.7% and 6.8% respectively, versus our forecasts of 7.1% and 7.1%. We expect minimal improvement in ROE.

According to our DuPont analysis, leverage (total assets over total equities) steadily fell from 22x in 2001 to 12x in 2013 as the economy entered a slow-growth phase. Even if GDP growth accelerates on global and domestic economic recoveries, we think a sharp expansion in leverage is unlikely. Total asset growth is highly correlated to GDP growth, which we forecast to be around 4%, but the growth of total equities, the denominator, will be about 5% assuming 6% ROE and a 15% dividend payout ratio. If the growth of the denominator exceeds the growth of the numerator, then leverage will keep trending down.

For ROA improvement, either NIM needs to expand or costs need to be cut

For ROA improvement, either NIM needs to expand or costs need to be cut. Our NIM outlook is different from the market's view. We think NIMs will stay flat largely due to competition for loan and deposit growth. Banks are also targeting SG&A cost growth similar to the nominal GDP level, so rapid cost-cutting is unlikely. Overall, Korean banks' ROE is likely to recover marginally from economic recovery.

Figure 8. DuPont Analysis of Korean Banks



*Figures until 2013 based on total banks (excl. specialized banks), while 2014/15 forecasts are based on the our coverage.

Source: FSS, Citi Research estimates

Figure 9. DuPont Analysis of Korean Banks

Dupont Analysis (%)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014F*	2015F*
Net interest income	1.9	2.5	2.7	2.6	2.9	2.7	2.6	2.5	2.1	2.4	2.4	2.2	2.0	2.0	2.1
Non-interest income	1.1	0.8	0.6	0.9	0.3	0.3	0.7	0.3	0.3	0.4	0.5	0.3	0.3	0.4	0.4
SG&A	1.2	1.4	1.4	1.4	1.5	1.5	1.5	1.3	1.2	1.3	1.3	1.3	1.2	1.3	1.2
Credit cost	1.2	1.0	1.6	1.0	0.4	0.4	0.3	0.7	0.7	0.7	0.5	0.5	0.5	0.4	0.4
Non-OP	0.1	-0.2	-0.2	-0.1	0.2	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	N/A	N/A
ROA (RHS)	0.7	0.6	0.1	0.9	1.2	1.1	1.1	0.6	0.4	0.6	0.9	0.6	0.4	0.6	0.6
Leverage (LHS)	22.2	21.3	21.7	20.0	16.6	14.9	14.7	15.7	15.3	14.0	13.2	12.5	12.2	12.9	12.7
ROE (LHS)	14.8	12.0	2.2	18.0	20.4	15.9	16.3	9.1	6.6	7.8	12.1	7.1	5.0	7.0	7.5

*Figures until 2013 based on total banks (excl. specialized banks), while 2014/15 forecasts are based on the figures of 5 banks in our coverage.

Source: FSS, Citi Research estimates

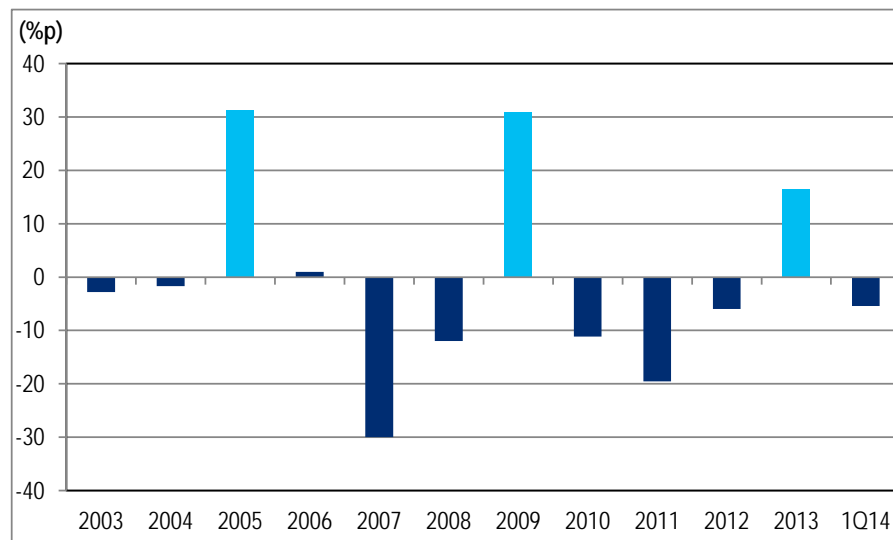
In the past 10 years, Korean banks have outperformed KOSPI only thrice

In addition, Korean banks' share-price history gives more reason for investors to be conservative. In the past 10 years, Korean banks have outperformed the KOSPI only thrice, in 2005, 2009 and 2013. Chances of an outperformance this year look slim.

We think at least two conditions need to be met for banks to outperform:

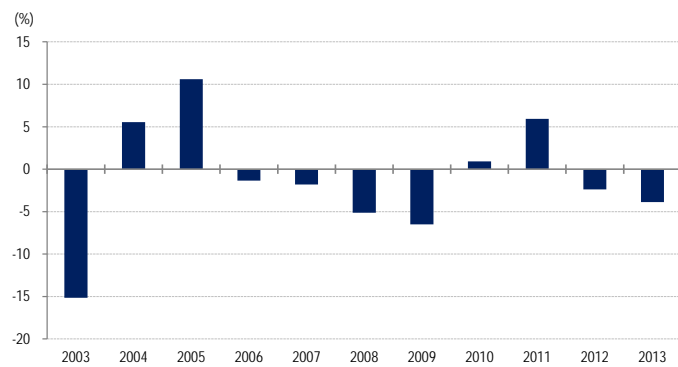
1. **Trough valuation:** In all 3 years of outperformance, trough valuations seemed to have been the most important driver, especially when earnings outlook was blurred. The current valuations of 0.7x PB and 10x PE are not troughs.
2. **Upward earnings outlook:** We think consensus earnings need to trend up for valuations to rise. Figure 12 shows ROE consensus changes through the year. ROE consensus was consistently revised up in 2004 and 2005, which supported the share price outperformance in 2005. In 2009 and 2013, earnings revisions were negative. But the market has taken a longer horizon to consider earnings improvement.

Figure 10. Annual Relative Performance of KRX Bank Index



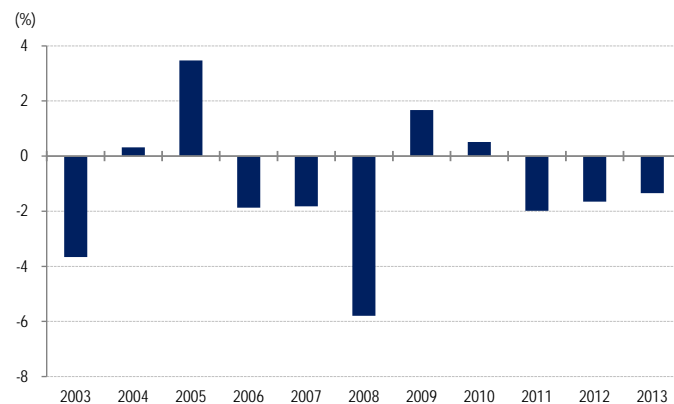
Source: KRX

Figure 11. YTD ROE Consensus Change for Current Year



Source: DataStream

Figure 12. YTD ROE Consensus Change for Year Later



Source: DataStream

Figure 13. Global Banks Valuation Comp Sheet

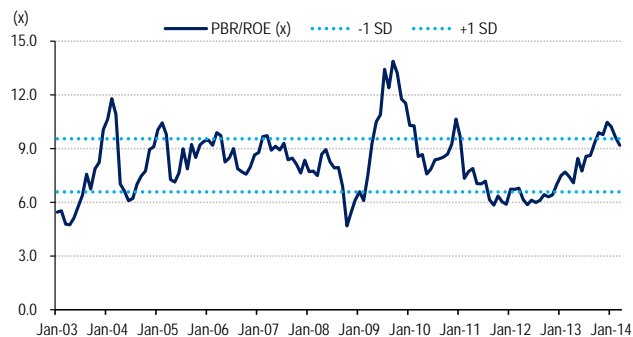
Bank	Ticker	Rec	Mkt Cap (\$bn)	Share price	Now	Target	Upside	Adj P/E 2014E	2015E	P/B 2014E	2015E	ROE 2014E	2015E	Div Yield 2014E
Korea*														
Shinhan Financial Group	055550.KS	Neutral	44	KRW	46,450	49,000	5%	9.9x	8.8x	0.6x	0.6x	7%	7%	1.7%
Hana Financial Group	086790.KS	Buy	10	KRW	36,700	45,000	19%	8.8x	7.0x	0.5x	0.5x	6%	7%	0.8%
DGB Financial Group	139130.KS	Buy/H	2	KRW	15,650	20,000	28%	7.5x	6.5x	0.7x	0.6x	10%	11%	2.6%
BS Financial Group	138930.KS	Buy	3	KRW	15,500	19,000	23%	8.3x	8.4x	0.8x	0.8x	10%	10%	1.9%
JAPAN														
Mitsubishi UFJ Financial Group	8306.T	Buy	76	JPY	548	800	46%	10.9x	11.9x	0.7x	0.6x	6%	5%	2.6%
Sumitomo Mitsui Financial	8316.T	Buy	54	JPY	4,020	6,500	62%	9.5x	10.5x	0.8x	0.7x	8%	7%	3.0%
Mizuho Financial Group	8411.T	Buy	48	JPY	200	320	60%	8.4x	9.4x	0.8x	0.8x	9%	8%	3.3%
Nomura Holdings	8604.T	Buy	22	JPY	607	1,000	65%	12.2x	10.6x	0.9x	0.9x	8%	8%	2.3%
Sumitomo Mitsui Trust Holdings	8309.T	Buy	16	JPY	421	580	38%	12.7x	12.6x	0.9x	0.9x	7%	7%	2.4%
Daiwa Securities Group	8601.T	Buy	13	JPY	754	1,200	59%	7.4x	7.4x	1.2x	1.2x	17%	16%	4.0%
China														
ICBC	1398.HK	Buy	208	Rmb	3.7	5.3	43%	4.8x	4.4x	0.9x	0.8x	20%	19%	7.4%
China Construction Bank	0939.HK	Buy	170	Rmb	4.2	6.3	48%	4.6x	4.1x	0.9x	0.8x	20%	20%	7.7%
ABC	1288.HK	Buy	135	Rmb	2.6	3.4	30%	4.7x	4.3x	0.9x	0.8x	20%	19%	7.5%
Bank of China	3988.HK	Buy	122	Rmb	2.7	3.4	24%	4.9x	4.7x	0.7x	0.7x	17%	16%	7.5%
Bank of Communications	3328.HK	Neutral	46	Rmb	3.8	4.5	18%	4.3x	4.1x	0.6x	0.6x	15%	14%	7.0%
China Merchants Bank	3968.HK	Buy	44	Rmb	10.8	15.3	41%	4.8x	4.3x	0.9x	0.8x	20%	19%	6.2%
Hong Kong														
Hang Seng Bank	0011.HK	Buy	31	\$	125	140	12%	14.4x	13.2x	2.2x	2.0x	16%	16%	4.5%
Bank of China (HK)	2388.HK	Buy	30	\$	22	30	36%	9.7x	8.9x	1.4x	1.3x	15%	15%	5.2%
Bank of East Asia	0023.HK	Neutral	10	\$	32	33	2%	12.9x	11.9x	1.1x	1.1x	9%	10%	3.6%
Singapore														
DBS	DBSM.SI	Buy	33	\$	17.0	19.0	12%	10.8x	9.4x	1.2x	1.1x	11%	12%	4.1%
UOB	UOBH.SI	Neutral	28	\$	21.6	21.7	0%	11.6x	10.4x	1.3x	1.2x	12%	12%	3.6%
Taiwan														
Fubon FHC	2881.TW	Sell	13	\$	39.7	43.5	10%	10.2x	9.7x	1.2x	1.1x	12%	12%	3.1%
Mega FHC	2886.TW	Buy	10	\$	23.6	20.5	-13%	11.3x	10.9x	1.2x	1.1x	11%	10%	4.4%
USA														
Wells Fargo & Co	WFC.N	Neutral	260	\$	49	53	7%	11.8x	11.6x	1.5x	1.4x	14%	13%	2.7%
JP Morgan Chase & Co	JPM.N	Buy	205	\$	54	68	26%	10.8x	9.7x	1.0x	0.9x	9%	10%	2.9%
Bank of America Corp	BAC.N	Buy	156	\$	15	19	28%	18.5x	9.9x	0.7x	0.6x	4%	7%	1.1%
US Bancorp	USB.N	Neutral	74	\$	40	46	14%	13.3x	12.6x	1.9x	1.7x	15%	14%	2.4%
Capital One Financial Corp.	COF.N	Buy	44	\$	76	87	14%	10.9x	10.7x	1.0x	0.9x	9%	9%	1.6%
UK														
HSBC	HSBA.L	Neutral	196	p	604	685	13%	12.1x	10.7x	1.1x	1.0x	9%	10%	4.8%
Lloyds Banking Grp	LLOY.L	Neutral	95	p	79	83	6%	10.2x	10.3x	1.4x	1.2x	5%	11%	1.9%
Barclays	BARC.L	Buy	68	p	245	345	41%	8.5x	6.8x	0.7x	0.7x	6%	9%	3.5%
RBS	RBS.L	Sell / H	63	p	325	300	-8%	12.8x	12.5x	0.7x	0.7x	0%	2%	0.0%
Standard Chartered	STAN.L	Buy	53	p	1,281	1,550	21%	10.6x	9.6x	1.1x	1.0x	11%	11%	3.9%
Europe (ex-UK)														
Banco Santander	SAN.MC	Neutral	117	E	7.1	6.8	-4%	14.8x	12.5x	1.1x	1.1x	8%	9%	7.0%
BNP Paribas	BNPP.PA	Buy	90	E	52	68	31%	10.8x	9.1x	0.8x	0.7x	7%	8%	4.2%
BBVA	BBVA.MC	Neutral	72	E	9	9	2%	20.0x	12.8x	1.2x	1.1x	6%	9%	4.2%
Deutsche Bank	DBKGn.DE	Buy	43	E	31	45	47%	5.7x	4.6x	0.6x	0.5x	6%	9%	2.5%

Note: Korea banks' share prices as of 13 May closing, while the others are based on 8 May closing prices.

Source: Citi Research estimates

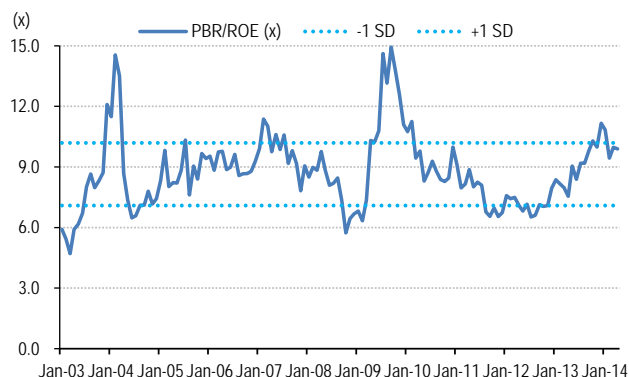
Historical Forward PBR/ROE

Figure 14. Forward PBR/ROE of Korean Banks



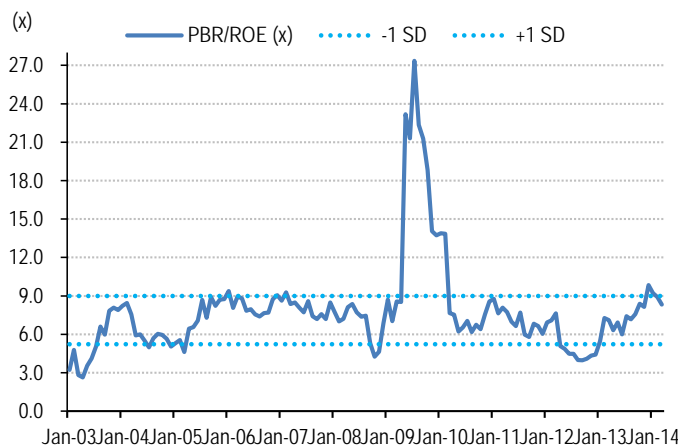
Source: DataStream

Figure 15. Forward PBR/ROE of SFG



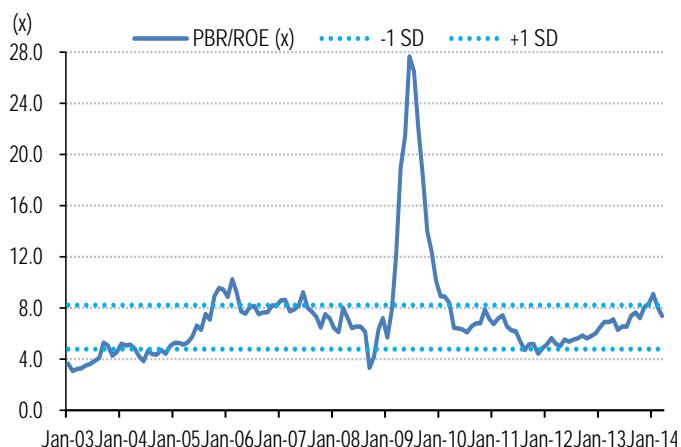
Source: DataStream

Figure 16. Forward PBR/ROE of HFG



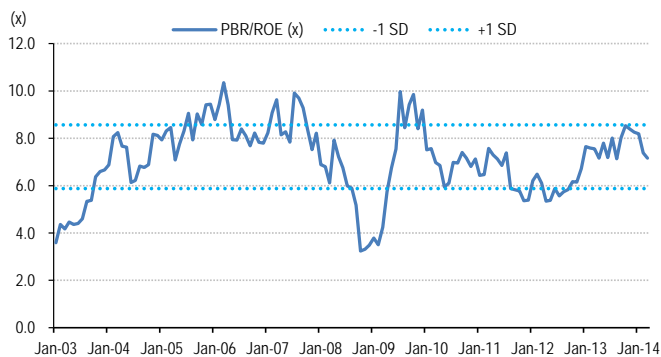
Source: DataStream

Figure 17. Forward PBR/ROE of IBK



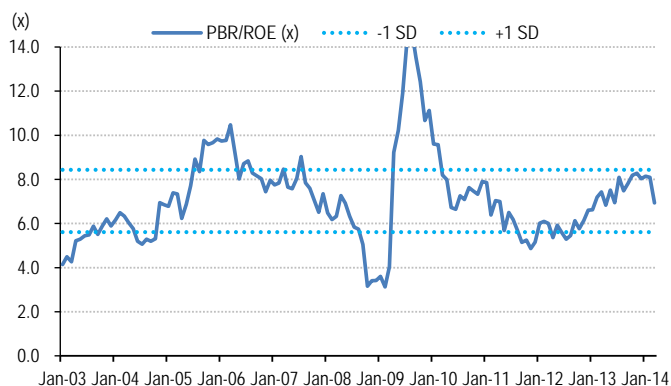
Source: DataStream

Figure 18. Forward PBR/ROE of BSFG



Source: DataStream

Figure 19. Forward PBR/ROE of DGBFG



Source: DataStream

Figure 20. US Banks – 1yr fwd P/E Band Chart



Source: Citi Research Estimates

Figure 21. EU Banks – 1yr fwd P/E Band Chart



Source: Citi Research Estimates

Figure 22. China Banks – 1yr fwd P/E Band Chart



Source: Citi Research

Figure 23. Hong Kong Banks – 1yr fwd P/E Band Chart



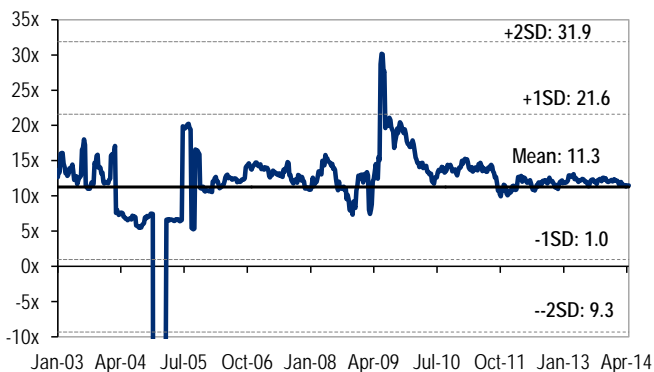
Source: Citi Research

Figure 24. Singapore Banks – 1yr fwd P/E Band Chart



Source: Citi Research

Figure 25. Taiwan Banks – 1yr fwd P/E Band Chart



Source: Citi Research

We take an empirical approach to
selecting stocks with upside potential

Margin-sensitive Loan Growth a Key Driver

While we see limited upside potential for Korean banks overall, we take an empirical approach to selecting stocks with upside potential. We think loan growth and NIM will be the key differentiating factors among Korean banks in 2014.

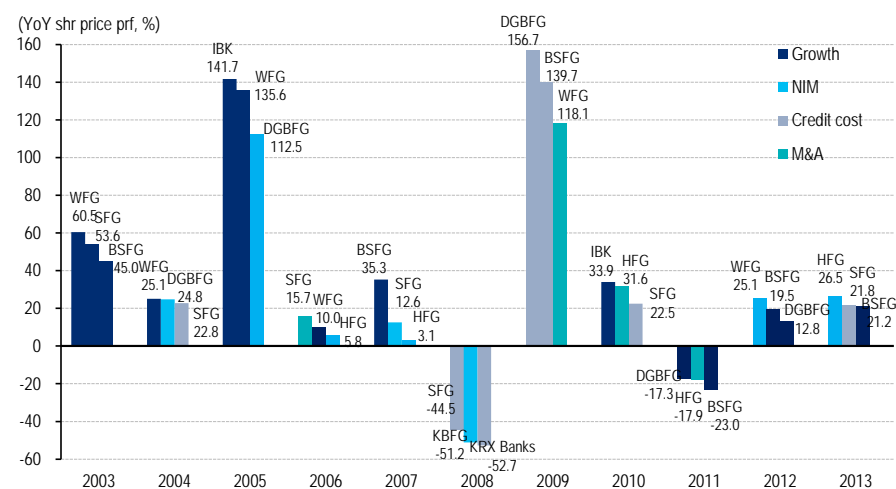
What makes banks winners?

Loan growth, NIM and credit costs have been the major determinants of bank earnings. However, we think the key drivers of share-price performance differ each year. We have focused on the top 3 performers in each of the past 10 years and identified the underlying fundamental drivers.

Our key findings are as below.

- Loan growth, be it organic or inorganic, is a primary factor for share-price performance. It was always one of the drivers of the top 3 performers, except in the two years of the global financial crisis, 2008 and 2009.
- Inorganic growth opportunities, such as M&A, were also a major positive catalyst. M&As were the key driver in 2006, 2009, 2010, and 2011. WFG outperformed in 2009 when it was selling KDIC shares to prepare WFG for privatization. In 2010 and 2011, HFG was the No.2 outperformer after it announced the acquisition of KEB from Lone Star in 2010.
- NIM becomes an important factor when loan growth competition is fierce. In 2006, WFG's loans grew the fastest, at 24% yoy, but its share-price performance was No.2. SFG's loans grew only about 13%, but it was the only bank to expand NIMs while others saw contraction. SFG was the top performer in 2006.
- Asset quality is critical during financial crises. SFG outperformed the most in 2008 thanks to the smallest increase in provisioning cost among banks. Excluding the financial crisis periods, YoY credit cost changes usually determine laggard stocks.

Figure 26. Korea Banks: Top 3 Performers Each Year and Underlying Reasons



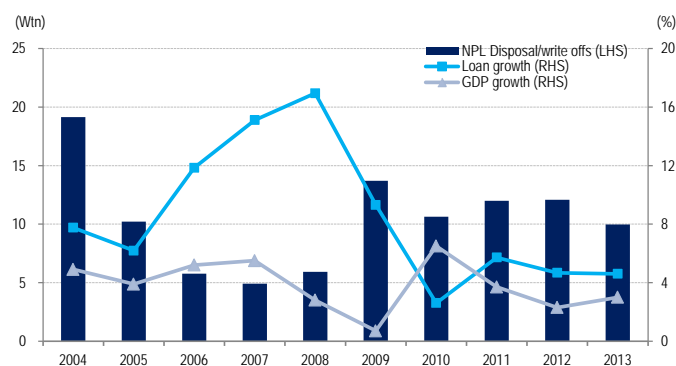
Source: KRX

Less concerned about asset quality

We conclude that growth and NIM will be the key share-price drivers in 2014

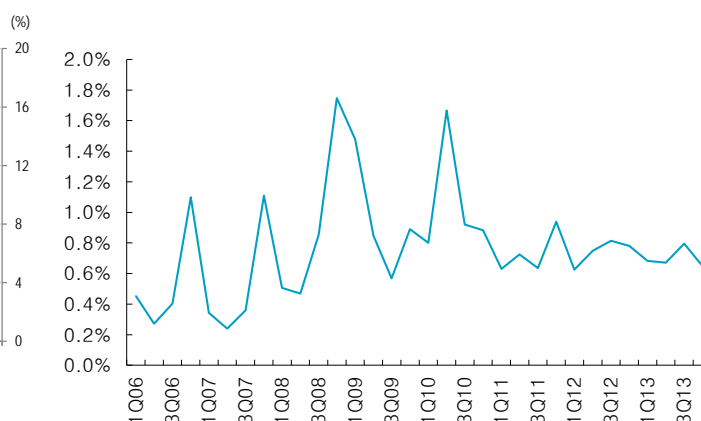
Based on our findings, we conclude that growth and NIM will be the key share-price drivers in 2014. Asset quality is unlikely to be seen as a virtue for now, assuming a mild economic recovery. Credit cost fell to 76bps in 2013, similar to the pre-crisis level, from a peak of 98bps in 2010. We expect a benign credit cycle to continue for Korean banks given minimal loan growth and massive NPL disposal/write-offs since the global financial crisis in 2008. Rather, we think loan growth with NIM will be the key drivers of share prices, as in 2005 and 2007.

Figure 27. Loan Growth, GDP Growth and NPL Clean-up



Source: BOK, FSS, Citi Research

Figure 28. Korean Banks' Quarterly Credit Cost



Source: FSS, Citi Research

Capital adequacy not a worry

Although capital ratios of Korean banks are not that high vs. Asia peers, they are well above the minimum requirements

Asset quality is closely related to capital adequacy ratios. Korean banks have implemented Basel III since 4Q13 for both banks and FHCs. Although capital ratios of Korean banks are not that high among Asian peers, they are well above the minimum requirements stipulated by regulatory bodies. In general, we do not expect capital-raising issues for the following reasons:

- No big earnings deterioration from credit event: Expecting a benign credit cycle, we do not foresee a credit event hitting earnings or capital significantly.
- Slow growth in risk weighted assets (RWA): As the Korean economy has entered a slow-growth phase after the global financial crisis, so have Korean banks. We do not expect rapid growth in RWA that could lower capital ratios or trigger credit events in the future.
- Low dividend payout: For the past 3 years, Korean banks' average dividend payout ratio has been 17%. We think Korean banks will continue to accumulate capital given that dividend payouts are closely monitored by regulatory bodies.

BSFG announced capital-raising recently but not due to capital ratio concerns but for M&A

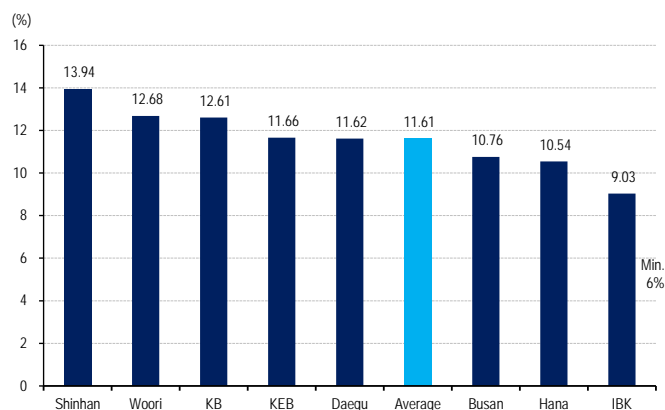
BSFG recently announced capital raising of W533bn but not due to capital ratio concerns but for M&A. BSFG is in final negotiations to acquire Kyongnam Bank. According to press reports, the acquisition price is likely to be about W1280bn, a PBR of 1x. In that case, BSFG is funding about 42% of the acquisition price from capital raise, which is in line with market expectations. We estimate that BSFG's tier 1 ratio at 8.0%, 2%p higher than minimum requirement even after the capital raising and the Kyongnam Bank acquisition.

Figure 29. Korean Banks' Capital Adequacy Ratios Under Basel III

End-2013	Bank			FHC		
	BIS ratio	Tier 1	CET 1	BIS ratio	Tier 1	CET 1
Shinhan	16.29	13.94	12.48	13.43	11.29	10.03
KB	15.42	12.61	12.61	15.38	12.78	12.78
Hana	13.91	10.54	10.53	12.28	9.24	8.88
Woori	15.52	12.68	11.05	13.01	10.11	7.39
IBK	12.30	9.03	8.12	NA	NA	NA
KEB	13.83	11.66	11.12	NA	NA	NA
Daegu	15.21	11.62	9.23	15.06	11.50	9.16
Busan	14.61	10.76	10.43	13.85	9.75	9.46
Average	14.64	11.61	10.70	13.84	10.78	9.62

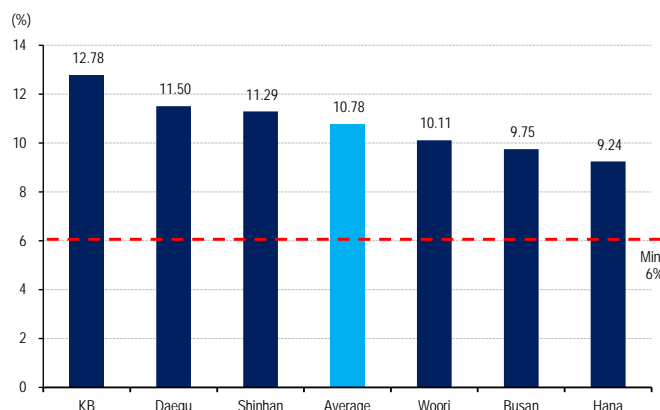
Source: FSS

Figure 30. Korea Banks: Tier 1 Ratio at Bank Level, end-2013



Source: FSS, Citi Research

Figure 31. Korea Banks: Tier 1 Ratio at FHC Level, end-2013



Source: FSS, Citi Research

Stock picks: BSFG, DGBFG and HFG

Our Buys are BSFG, DGB FG and HFG based on our findings of key drivers. Loan growth and NIM will likely be the key drivers of share prices this year. Including PBR/ROE valuations, we have ranked the top 3 banks that best fit each category.

BSFG and DGB FG should continue to enjoy solid loan growth based on their favorable regional economies. BSFG is set to acquire Kyongnam Bank, another regional bank based in Kyongnam province, which would add M&A momentum to the bank. HFG is ranked third in terms of loan growth potential and NIM protection this year.

Figure 32. Top 3 Banks per Loan Growth, NIM and Valuation Criteria

	Growth YoY	NIM YoY	PBR/ROE merit
1	BSFG	BSFG	DGBFG
2	DGBFG	DGBFG	BSFG
3	HFG	HFG	HFG

Source: Citi Research

Figure 33. Korea Banks: Annual Share Price Performances and 3 Key Earnings Indicators, 2003-13

	2003		2004		2005		2006		2007		2008		2009		2010		2011		2012		2013	
YoY shr price (%)	WFG	60.5	WFG	25.1	IBK	141.7	SFG	15.7	BSFG	35.3	SFG	-44.5	DGBFG	156.7	IBK	33.9	DGBFG	-17.3	WFG	25.1	HFG	26.5
	SFG	53.6	DGBFG	24.8	WFG	135.6	WFG	10.0	SFG	12.6	KBFG	-51.2	BSFG	139.7	HFG	31.6	HFG	-17.9	BSFG	19.5	SFG	21.8
	BSFG	45.0	SFG	22.8	DGBFG	112.5	HFG	5.8	HFG	3.1	Banks	-52.7	WFG	118.1	SFG	22.5	BSFG	-23.0	DGBFG	12.8	BSFG	21.2
	HFG	35.0	BSFG	19.2	KBFG	88.9	Banks	5.0	IBK	2.6	IBK	-56.3	IBK	82.1	WFG	11.9	SFG	-24.9	KBFG	4.4	Banks	17.3
	Banks	26.4	HFG	17.3	Banks	85.2	DGBFG	3.9	Banks	2.2	DGBFG	-56.9	Banks	80.6	Banks	10.7	Banks	-30.5	Banks	3.4	DGBFG	13.4
	DGBFG	21.2	IBK	10.0	HFG	79.1	KBFG	-2.1	DGBFG	-2.2	HFG	-61.3	KBFG	77.2	BSFG	2.9	IBK	-33.3	SFG	-2.3	WFG	12.7
	IBK	15.2	Banks	8.8	SFG	75.4	IBK	-2.3	KBFG	-7.9	BSFG	-62.9	HFG	68.7	KBFG	0.5	WFG	-39.2	HFG	-2.4	KBFG	11.5
	KBFG	6.3	KBFG	-9.3	BSFG	66.7	BSFG	-12.5	WFG	-14.7	WFG	-66.3	SFG	45.5	DGBFG	-9.3	KBFG	-39.5	IBK	-5.2	IBK	2.5
NIM YoY(bp)	KBFG	15	KBFG	30	KBFG	33	SFG	18	SFG	10	BSFG	1	BSFG	15	SFG	39	WFG	24	WFG	-12	HFG	-18
	BSFG	14	HFG	11	DGBFG	31	HFG	-2	BSFG	-1	IBK	-1	DGBFG	0	KBFG	36	SFG	7	HFG	-19	Banks	-21
	WFG	6	DGBFG	9	Banks	26	DGBFG	-9	HFG	-9	DGBFG	-7	IBK	-8	WFG	34	Banks	-1	Banks	-21	IBK	-23
	IBK	-1	Banks	5	HFG	21	KBFG	-21	Banks	-12	Banks	-18	WFG	-35	IBK	33	HFG	-4	SFG	-23	SFG	-23
	DGBFG	-8	SFG	-6	BSFG	21	Banks	-23	IBK	-13	SFG	-19	SFG	-37	Banks	28	DGBFG	-10	BSFG	-27	DGBFG	-24
	Banks	-14	BSFG	-9	IBK	20	BSFG	-26	WFG	-16	WFG	-22	HFG	-37	HFG	25	BSFG	-18	KBFG	-33	BSFG	-26
	HFG	-17	IBK	-17	SFG	6	IBK	-31	KBFG	-28	HFG	-26	Banks	-40	DGBFG	5	IBK	-19	DGBFG	-35	KBFG	-27
	SFG	-50	WFG	-22	WFG	-1	WFG	-36	DGBFG	-37	KBFG	-46	KBFG	-58	BSFG	-6	KBFG	-27	IBK	-43	WFG	-41
Loan growth (%)	WFG	31.0	BSFG	17.3	IBK	14.1	WFG	25.0	WFG	23.6	WFG	17.7	IBK	14.1	IBK	9.9	BSFG	12.8	BSFG	12.2	BSFG	9.9
	SFG	22.0	WFG	11.0	BSFG	14.0	IBK	20.8	BSFG	19.2	Banks	16.9	HFG	9.4	BSFG	6.9	IBK	8.2	DGBFG	9.5	DGBFG	9.6
	BSFG	21.6	IBK	10.4	WFG	10.8	BSFG	16.8	IBK	18.7	KBFG	16.8	Banks	9.3	DGBFG	5.9	HFG	8.2	IBK	5.8	WFG	6.2
	IBK	20.9	DGBFG	10.0	DGBFG	10.0	HFG	16.2	HFG	16.3	IBK	16.4	DGBFG	8.5	HFG	4.3	DGBFG	8.2	SFG	5.4	Banks	5.8
	DGBFG	19.6	Banks	7.8	Banks	6.2	DGBFG	13.7	SFG	16.1	SFG	15.4	KBFG	7.6	Banks	2.6	SFG	6.9	Banks	4.7	IBK	5.6
	HFG	18.7	HFG	6.6	HFG	5.6	SFG	13.1	Banks	15.1	BSFG	14.5	WFG	7.6	SFG	1.9	Banks	5.7	HFG	4.3	HFG	5.0
	Banks	18.5	SFG	3.8	SFG	5.2	Banks	11.9	DGBFG	14.5	HFG	14.4	BSFG	6.7	KBFG	-0.1	KBFG	3.7	KBFG	3.0	SFG	2.3
	KBFG	13.2	KBFG	2.4	KBFG	-1.7	KBFG	2.5	KBFG	12.1	DGBFG	12.5	SFG	5.6	WFG	-0.8	WFG	1.9	WFG	2.6	KBFG	1.9
YoY Provisioning (bp)	WFG	-123	SFG	-197	Banks	-263	Banks	-138	KBFG	-42	SFG	32	HFG	-73	SFG	-20	DGBFG	-78	IBK	-26	DGBFG	-24
	DGBFG	14	IBK	-128	KBFG	-158	DGBFG	-82	BSFG	-10	BSFG	34	IBK	-22	BSFG	-9	KBFG	-77	KBFG	-4	BSFG	-13
	BSFG	38	HFG	-107	IBK	-114	BSFG	-38	WFG	-8	DGBFG	40	Banks	6	HFG	-6	Banks	-43	BSFG	-2	Banks	-8
	SFG	71	KBFG	-85	DGBFG	-91	SFG	-24	Banks	-4	IBK	46	KBFG	17	Banks	16	WFG	-43	Banks	-1	KBFG	-6
	Banks	75	BSFG	-81	SFG	-78	IBK	-15	SFG	-3	Banks	51	SFG	17	KBFG	29	IBK	-40	DGBFG	4	WFG	-5
	HFG	130	DGBFG	-28	WFG	-61	KBFG	-6	DGBFG	1	WFG	53	WFG	17	WFG	37	SFG	-27	WFG	6	SFG	-3
	IBK	142	WFG	-17	BSFG	-51	WFG	19	HFG	10	KBFG	69	DGBFG	18	IBK	39	BSFG	-23	SFG	10	HFG	3
	KBFG	182	Banks	213	HFG	-50	HFG	21	IBK	26	HFG	92	BSFG	22	DGBFG	53	HFG	-20	HFG	11	IBK	9

Source: Company data and Bloomberg

In Quest for Loan Growth

Loan growth of Korean banks has been muted since the global financial crisis

Loan growth of Korean banks has been muted since the global financial crisis. Loan CAGR was only 3.7% in 2008-12, but recovered in 2013 to 4.6%. Banks could focus on SME loans rather than large corporate or household loans this year, which are increasingly becoming less lucrative.

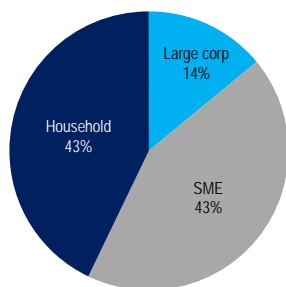
Growth lies in SME sector

The market is predicting higher loan growth in 2014, with the BOK expecting 2014 GDP of 4.0%, up from 3% in 2013. Bank loans can be categorized into large corporate loans, SME loans and household loans.

The yield spread between corporate bond ratings has been widening

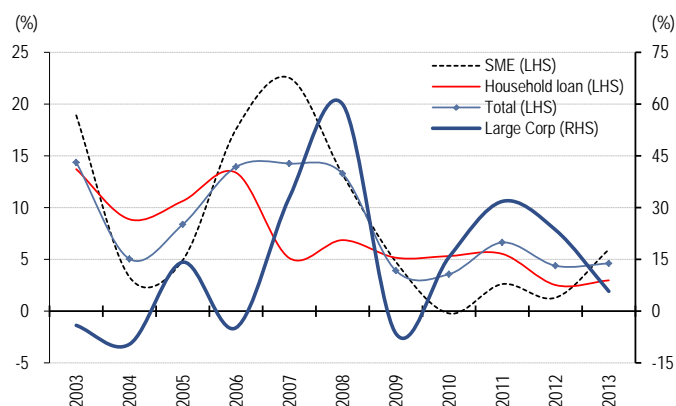
Since the global financial crisis, the yield spread between corporate bond ratings has been widening, making it more difficult for SMEs to issue bonds. SMEs are therefore always in need of loans. Comparing historical data on loan and bond rates, SMEs would be more willing to lend from banks given the spread between the SME loan rate and a BBB bond rate is wider than the historical average. The SME loan rate is at a historical trough, whereas the BBB bond rate has been steadily rising since 2013. According to the latest BOK lending survey, bank loan officers are now willing to lend more to SMEs as credit risk has eased.

Figure 34. Korean Banks: Loan Portfolio by Loan Type



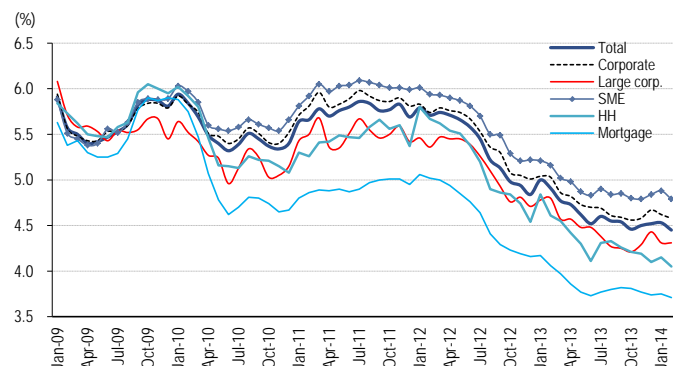
Source: FSS, Citi Research

Figure 35. YoY Growth by Loan Type



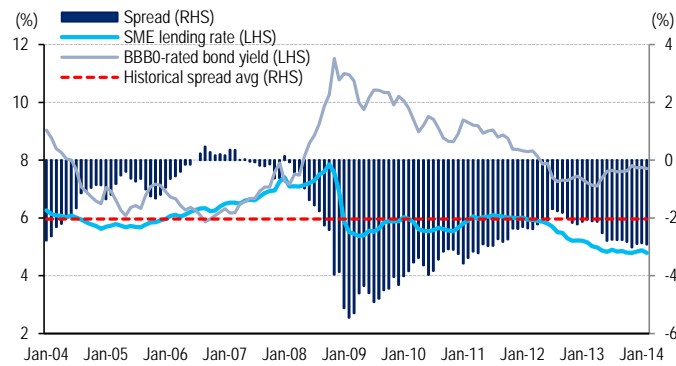
Source: BOK, Citi Research

Figure 36. New Loan Rate by Type



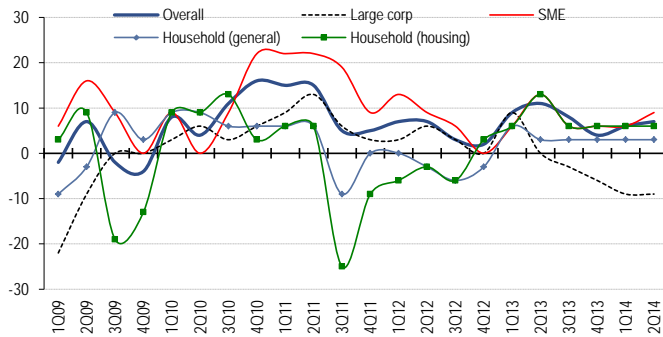
Source: BOK, Citi Research

Figure 37. Spread Between BBB Bonds and SME Lending Rate



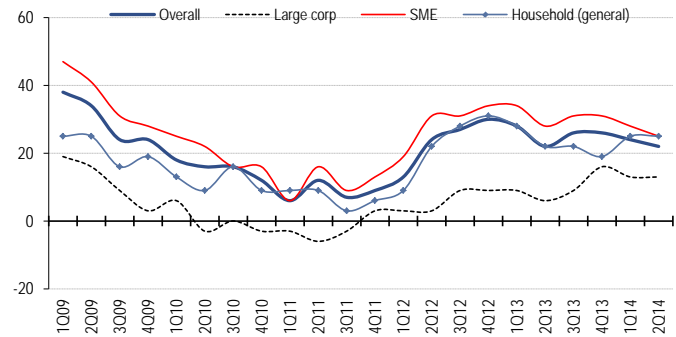
Source: FSS, Citi Research

Figure 38. BOK Loan Survey: Lending Attitude by Loan Type



Source: BOK, Citi Research

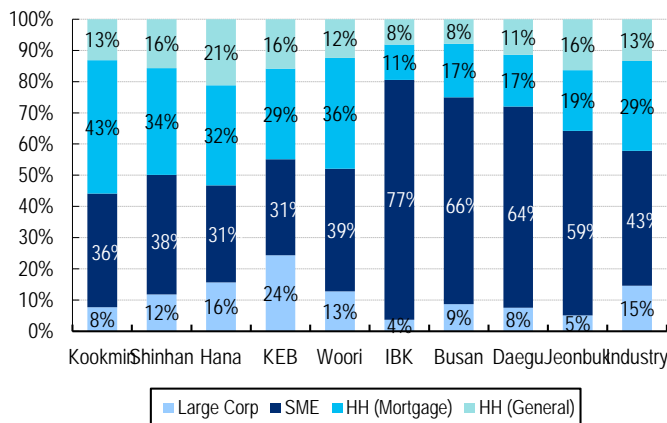
Figure 39. BOK Loan Survey: Credit Risk



Source: BOK, Citi Research

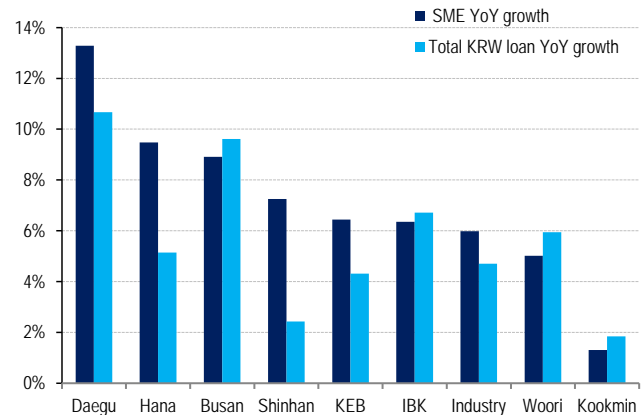
Busan and Daegu have large exposures to SMEs, accounting for more than 60% of their loan book portfolios. Busan and Daegu have already guided high SME loan growth targets for this year. Among the big banks, Woori and Shinhan have largest exposures to SMEs. Hana and Shinhan were most active in SME lending in 2013. We think this trend will continue in 2014.

Figure 40. Loan Portfolio by Loan Type at end-2013



Source: FSS, Citi Research

Figure 41. SME & KRW Loan Growth in 2013



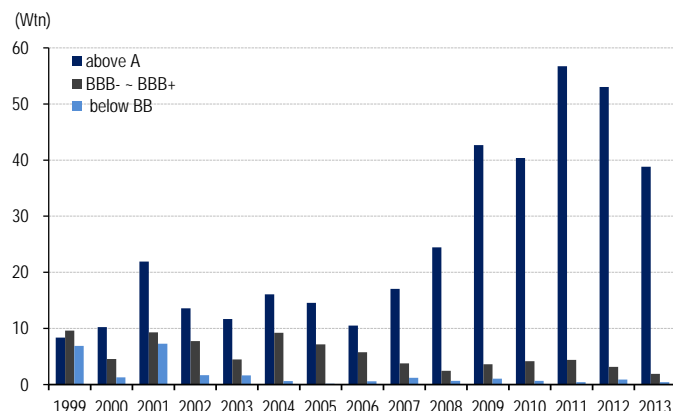
Source: FSS, Citi Research

Large corporate loans less lucrative

Large corporates have easy access to capital markets

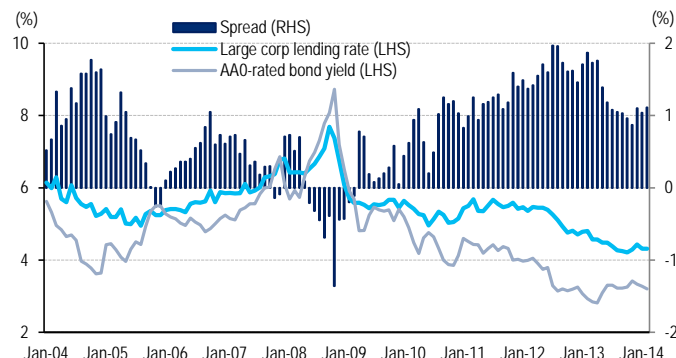
Since the global financial crisis, large corporates have been enjoying ample liquidity in the market. Issuance of corporate bonds with above A ratings accounted for 92% of the total corporate bond issuances from 2009 to 2013. Large corporates have easy access to capital markets. Also, the corporate bond rate for an AA bond was about 3.2% as of Feb 2014, 1.2%p lower than that for large corporate loans.

Figure 42. Corporate Bond Issuances (Wtrn)



Source: FSS, Citi Research

Figure 43. Spread Between AA Bond and Lending Rate Widening



Source: FSS, Citi Research

Household loans becoming even less lucrative

Govt aims to control household debt growth

We don't expect much growth from the household loan sector. According to the "Household debt structure improvement plan" announced by the government in Feb, the debt to income ratio (DTI) of households will be closely monitored. The target is to cut the DTI by 5%p by end-2017, which will eventually exert pressure on household loan growth. The government has not announced specific actions, but it seems likely that FSS will guide banks to control household loan growth if it seems excessive.

Household loans, especially mortgages, have the lowest loan rate

Even if household loan growth accelerates on the recovery of real estate, earnings contributions would not be meaningful. Household loans, especially mortgages, have the lowest loan rate among loan categories. Plus, the government intends to increase the fixed rate based mortgage loan portion by up to 40% by end-2017.

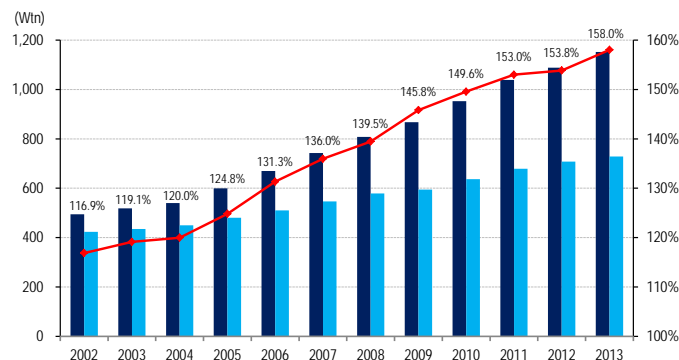
The fixed rate mortgage loan portion of banks is only 12-14% on average, so banks must sell fixed rate based mortgages aggressively to meet the target. From 2011 to 2012, up to 50% of new mortgage loans were on fixed rates. By end-2011, it was widely expected that the market interest rate would go up on FRB's exit strategy, so fixed rate mortgage loans became popular.

The Korean Housing Finance Corporation (KHF) first launched conforming loans in 2012 at fixed rates, which were about 1%p lower than the floating rate at the time. Conforming loans by KHF were popular in 2012 because the lending rate was lower than for mortgage loans of banks. But the popularity was short-lived as the market interest rate kept falling afterwards and now there is little difference between the floating rate of bank mortgage loans and the fixed rate of conforming loans.

Banks have lowered the fixed loan rate to attract clients

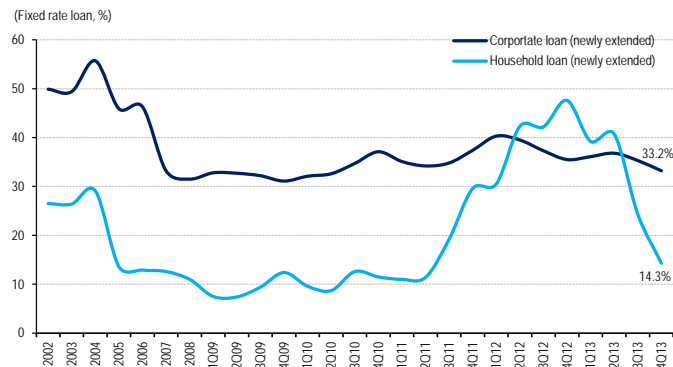
The fixed rate based mortgage loan rate is usually higher than the floating rate based mortgage loan rate, reflecting the interest-rate risk. But after the announcement, banks have lowered the fixed loan rate to attract clients, which makes the household loan sector even less profitable. Our economist forecasts that the interest rate will likely start rising from 2015. We believe growing household loans at a fixed rate at this point when market interest rates are likely to bottom out in 2015 won't help banks.

Figure 44. Debt to Income (DTI) History



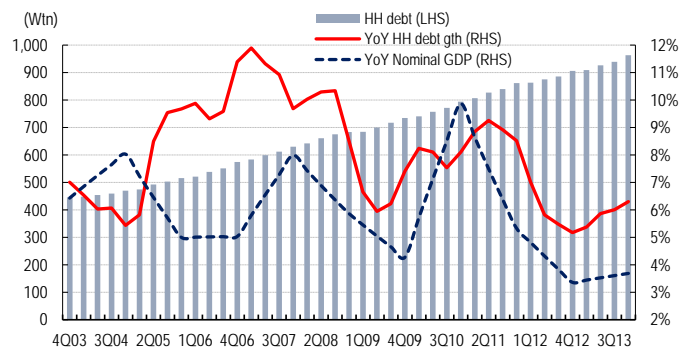
Source: BOK, KOSIS and Citi Research

Figure 45. % of Fixed Rate Based Household Loans (newly extended)



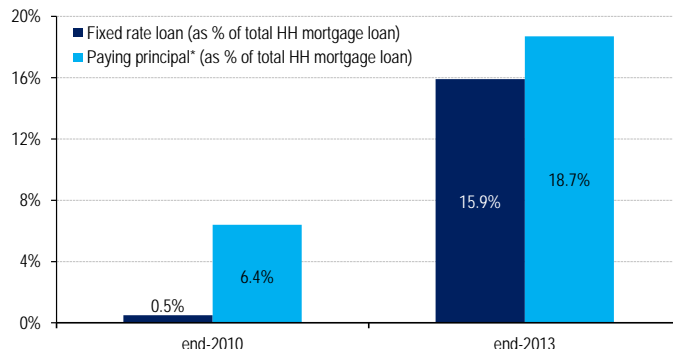
Source: BOK, Citi Research

Figure 46. Korea: Household Debt Trends



Source: BOK, Citi Research

Figure 47. Korea: Shares of Mortgage Loans by Repayment Type



Source: BOK, Citi Research

NIM Is Near Trough, but Likely to Stay There

Key factors for NIMs are the intensity of competition, interest-rate changes and the asset-liability structures

Key factors for NIMs are the intensity of competition, interest-rate changes and the asset-liability structures. Growing competition in 2014 is negative, but re-pricing of maturing high-cost debentures will likely be an offset. Expecting NIMs to be flat this year, we recommend banks that can withstand NIM pressure.

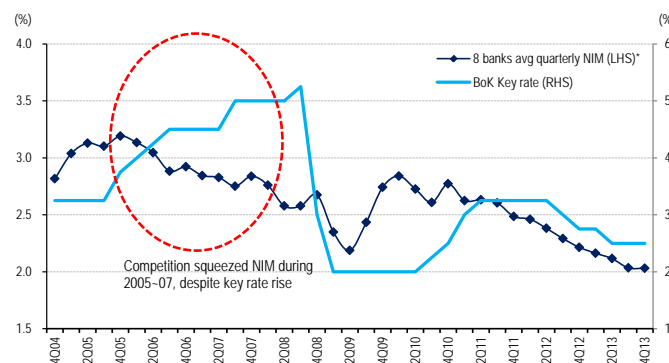
Competition squeezes NIM both ways

if banks start competing for loans, they will have to secure funding first

NIMs fell 32bps on average even when the BOK base rate was rising by more than 3%p in 2005-07, which is attributable to keen loan competition. Competition could get worse for NIM when the LDR regulation is in place. FSS has been guiding banks to keep LDR below 100% since 2009. This has not been an issue because Korean banks did not compete for loan growth so far. But if banks start competing for loans on the back of a macro recovery in 2014, they will have to secure funding first given a high LDR. NIM would thus be squeezed by both lending and funding.

Banks' LDR was close to 100% at 4Q13. According to the BOK, loans grew 2.7% until March and deposits +1.0% during the same period. If this rate continues, then LDR will reach 100% at year-end. Before it does, banks will have to attract deposits by offering higher rates, which would raise funding costs and impact NIMs.

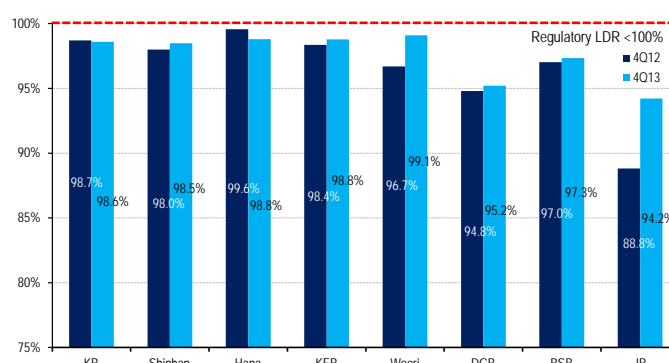
Figure 48. Loan-deposit Spread and BOK Base Rate



Note: *8 banks include Kookmin, Shinhan, Hana, KEB, Woori, IBK, BSB and DGB.

Source: BOK, Company data and Citi Research

Figure 49. Banks LDR 4Q13*



Note: *LDR regulation adopted in 2010 and the ratio is guided <100% level by FSS.

Source: FSS, Company data and Citi Research

Figure 50. Korea Banks: Loans & Deposits YoY Growth Since Jan 2013

(% YoY)	Total loans	Corp loans	Large corp	SME	HH loans	Mortgage	Total deposit (a+b+c+d)	Demand deposit (a)	Time & Savings deposit (b)	Time deposit	MMDA	Marketable deposit (c)	Bank debenture (d)
Jan-13	4.1	5.5	19.8	1.6	2.4	3.1	4.1	10.2	5.6	4.6	5.3	-19.5	-0.1
Feb-13	3.7	5.1	16.3	1.9	1.9	2.6	3.7	10.4	4.8	1.9	8.7	-22.2	1.7
Mar-13	3.7	5.0	15.4	2.1	2.1	2.5	2.4	9.1	3.3	0.6	6.2	-21.8	0.9
Apr-13	3.6	4.9	12.8	2.5	2.0	2.2	2.8	8.7	3.8	0.1	9.2	-19.3	0.0
May-13	3.6	4.8	10.5	3.0	2.0	2.4	2.8	15.0	3.0	-1.2	9.2	-12.6	-0.2
Jun-13	4.1	5.2	9.8	3.8	2.8	3.2	3.2	11.7	3.1	-2.5	12.3	-7.8	2.2
Jul-13	4.0	5.1	8.8	3.9	2.7	3.1	2.3	12.9	1.2	-3.1	7.3	1.4	3.6
Aug-13	4.1	5.2	6.9	4.6	2.7	3.1	3.7	18.0	1.9	-2.7	9.0	6.2	5.9
Sep-13	4.2	5.2	7.9	4.4	2.9	3.2	3.7	13.2	1.9	-2.5	8.5	2.5	8.8
Oct-13	4.4	5.4	7.2	4.8	3.0	3.6	4.4	14.7	3.0	-1.5	10.4	1.5	8.1
Nov-13	4.9	6.0	7.7	5.4	3.4	4.3	4.4	18.4	2.2	-2.7	10.6	9.2	8.9
Dec-13	4.6	5.9	5.8	6.0	3.0	3.6	3.6	12.5	1.3	-2.2	6.6	9.0	10.7
Jan-14	5.3	6.9	9.0	6.2	3.2	4.1	3.9	13.3	1.9	-1.9	8.6	3.1	10.4
Feb-14	5.7	7.0	9.6	6.2	3.9	4.7	4.6	13.9	2.5	-0.5	7.6	-2.3	12.6
Mar-14	5.6	6.8	8.5	6.3	4.1	4.9	4.4	9.1	2.6	0.6	5.9	-2.2	13.6
Apr-14	6.1	7.3	9.4	6.6	4.5	5.7	5.2	10.5	2.8	0.5	6.8	3.0	16.8

Source: BOK, Citi Research

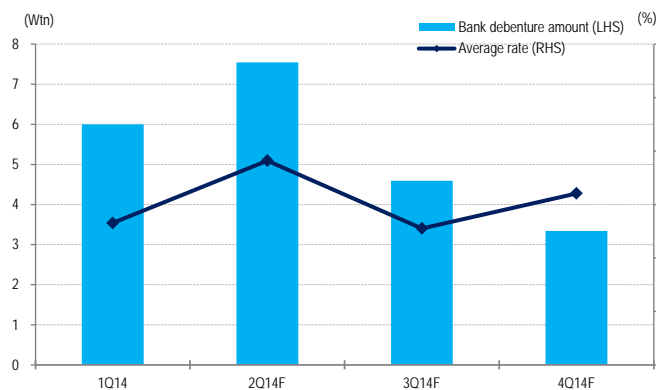
Maturing high-cost debentures are a relief

About W36trn of high-cost bank debentures will mature in 2014.

Banks can save funding costs and lift NIMs by repricing high-cost debentures

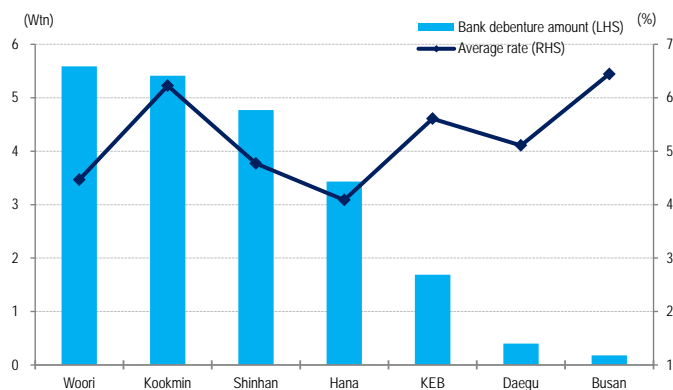
Banks can save funding costs and lift NIMs by repricing high-cost debentures. The average funding cost of the debentures maturing this year is 5.24%, much higher than the latest rate of about 3%. We assume banks will re-issue debentures rather than trying to replace them with deposits given that the debenture rate is only about 50bps higher than the deposit rate and the debentures' maturity is about five years. This funding cost savings will likely offset price competition.

Figure 51. Bank Debenture Maturity Schedule



Source: Citi Research estimates

Figure 52. Bank Debenture Maturity Schedule by Bank



Source: Citi Research estimates

Figure 53. Bank Debenture Re-pricing Effect

(Wbn, %)	Kookmin	Shinhan	Hana	Woori	KEB	Daegu	Busan	Total
Maturing amount	5,414	4,770	3,433	5,590	1,690	400	180	21,477
Average rate	6.2	4.8	4.1	4.5	5.6	5.1	6.4	5.0
Current debenture rate	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.1
Cost savings	153	65	24	60	37	7	5	351
Interest earning asset	230,373	199,315	134,874	243,081	83,098	31,525	36,207	958,475
NIM impact	0.07%	0.03%	0.02%	0.02%	0.04%	0.02%	0.02%	0.02%

Source: Citi Research

Banks with small LCF better off to withstand NIM pressure

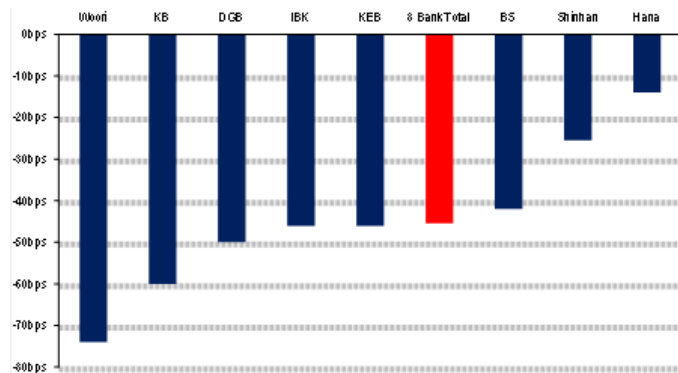
In a falling interest-rate environment, banks with less LCF can better withstand NIM pressures

Our base assumption for loan rates is that it will continue to trend down in 2014, even if the BOK base rate stays flat, largely due to loan growth competition as most of the banks are targeting higher growth this year. As stated earlier, we think loan interest rates will likely fall, as will funding costs due to maturing high-cost debentures. In a falling interest-rate environment, banks with less LCF are better off to withstand NIM pressures. Low-cost funding usually means demand deposits with about 0.3% funding cost.

Generally, Korean banks' NIMs are negatively affected when interest rates decline as the size of the interest earnings assets is bigger than that of interest bearing liabilities. For example, when the interest rate falls 10bps, the downside to interest earnings will be bigger than for interest costs, assuming equal re-pricing maturity of assets and liabilities. NIM contraction seems inevitable when interest-rate falls, but lowering the deposit rate as much as possible would help. Thus, banks with smaller LCF portions would enjoy a larger part of their interest bearing liabilities move along with the interest rate fall.

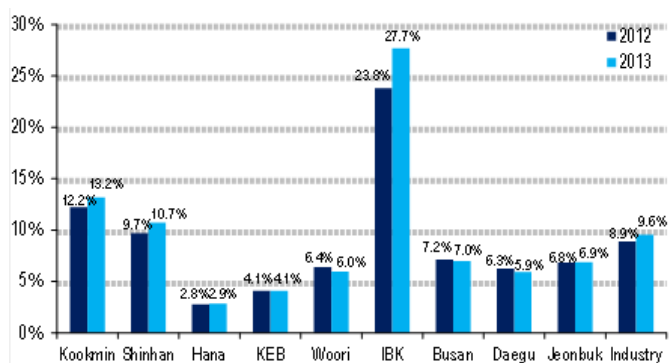
In that regard, we believe HFG and regional banks are best positioned to protect NIMs in a falling interest rate environment.

Figure 54. Korea Banks: NIM Declines, between end-FY11 and end-FY13



Source: FSS, Company Data

Figure 55. Korea Banks: Banks with Less Low-cost Funding Better Off



Source: FSS, Company Data

Companies

BS Financial Group (138930.KS)

Initiate at Buy: M&A Is Cherry on the Cake

Buy	1
Price (14 May 14)	W16,150
Target price	W19,000
Expected share price return	17.6%
Expected dividend yield	1.9%
Expected total return	19.5%
Market Cap	W3,123,085M
	US\$3,054M

Price Performance

(RIC: 138930.KS, BB: 138930 KS)



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■ **M&A as an additional catalyst** — We believe smooth progress in the acquisition of Kyongnam Bank will be a positive catalyst for the BSFG share price. On May 9, BSFG announced capital-raising of W533bn to fund the acquisition, which was in line with market expectations. Our 2014E NP for BSFG is already 6.7% higher than consensus and the Kyongnam Bank acquisition would be ROE accretive, in our view. BSFG is in final negotiations with the KDIC about the details of the acquisition, and a lower agreed price would provide upside potential to our earnings forecast.

■ **Beneficiary of strong SME loan demand** — BSFG will grow loans at 10.2% yoy in 2014E vs. 5% on average for the Korean banks, on our estimates. In addition to inorganic growth from the M&A, BSFG should achieve strong organic growth from Busan City and the neighboring regional economy, a key beneficial differentiator for BSFG. SME loan growth has been reviving since 2013, and we expect it continue in 2014 on the back of a macro recovery.

■ **NIM likely to be well-protected** — BSFG's NIM has fallen by 61bps since 4Q10, compared with an average 74bps contraction for Korean banks, an outperformance that we believe is largely due to a lower portion of low-cost funds and higher-than-sector loan growth. With BSFG until now being a competitor for loan growth with Kyongnam Bank, the acquisition of the latter should be supportive of NIM.

■ **Bank stock with superior qualities** — BSFG meets all our criteria for outperformance among Korean bank stocks, offering growth momentum, NIM protection and M&A opportunity, and with valuation attractive at 2014E PBR 0.8x vs. the sector's highest ROE of 10.2%. Our target price of W19,000, for a total return of 20%, is derived from a Gordon Growth Model that assumes a sustainable ROE of 9.9%, perpetual growth of 1.0% and a COE of 9.7%.

■ Click [here](#) to test your own assumptions through our Interactive Modeling tool.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(WB)	(W)	(%)	(x)	(x)	(%)	(%)
2012A	366	1,892	-10.2	8.5	1.0	11.8	2.0
2013A	306	1,580	-16.5	10.2	0.9	9.0	1.7
2014E	399	1,868	18.2	8.6	0.9	10.2	1.9
2015E	433	1,849	-1.0	8.7	0.8	9.6	1.9
2016E	478	2,039	10.3	7.9	0.7	9.8	2.5

Source: Powered by dataCentral

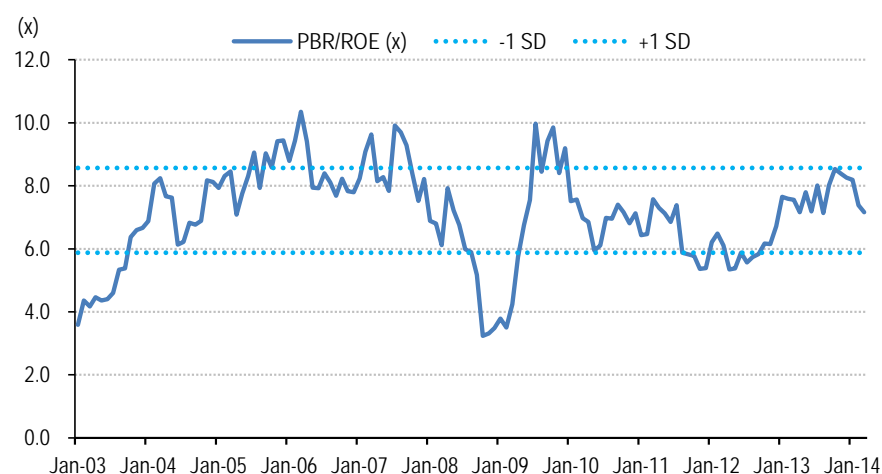
Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Valuation Ratios					
P/E adjusted (x)	8.1	9.7	8.2	8.3	7.6
P/E reported (x)	8.1	9.7	8.2	8.3	7.6
P/BV (x)	0.9	0.9	0.8	0.8	0.7
P/Adjusted BV diluted (x)	0.9	0.9	0.8	0.8	0.7
Dividend yield (%)	2.1	1.8	1.9	1.9	2.6
Per Share Data (W)					
EPS adjusted	1,892	1,580	1,868	1,849	2,039
EPS reported	1,892	1,580	1,868	1,849	2,039
BVPS	16,866	18,104	18,406	19,977	21,637
Tangible BVPS	16,866	18,104	18,406	19,977	21,637
Adjusted BVPS diluted	16,866	18,104	18,406	19,977	21,637
DPS	330	280	300	300	400
Profit & Loss (Wb)					
Net interest income	1,143	1,154	1,248	1,330	1,424
Fees and commissions	109	85	106	90	93
Other operating Income	11	-21	5	17	18
Total operating income	1,263	1,219	1,360	1,437	1,535
Total operating expenses	-569	-574	-598	-616	-635
Oper. profit bef. provisions	694	645	762	821	900
Bad debt provisions	-201	-232	-243	-265	-287
Non-operating/exceptionals	-9	-10	-1	0	0
Pre-tax profit	485	403	518	556	613
Tax	-119	-97	-117	-122	-135
Extraord./Min. Int./Pref. Div.	0	0	-1	0	0
Attributable profit	366	306	399	433	478
Adjusted earnings	366	306	399	433	478
Growth Rates (%)					
EPS adjusted	-10.2	-16.5	18.2	-1.0	10.3
Oper. profit bef. prov.	-0.1	-7.1	18.1	7.8	9.6
Balance Sheet (Wb)					
Total assets	43,163	46,917	50,004	53,277	56,859
Avg interest earning assets	38,134	41,880	45,233	48,702	52,317
Customer loans	30,120	33,803	37,070	40,280	43,768
Gross NPLs	317	363	483	667	879
Liab. & shar. funds	43,163	46,917	50,004	53,277	56,859
Total customer deposits	28,602	31,059	33,190	35,697	38,393
Reserve for loan losses	425	454	645	881	1,133
Shareholders' equity	3,262	3,501	4,314	4,682	5,071
Profitability/Solvency Ratios (%)					
ROE adjusted	11.8	9.0	10.2	9.6	9.8
Net interest margin	3.00	2.76	2.76	2.73	2.72
Cost/income ratio	45.0	47.1	44.0	42.9	41.4
Cash cost/average assets	1.4	1.3	1.2	1.2	1.2
NPLs/customer loans	1.1	1.1	1.3	1.7	2.0
Reserve for loan losses/NPLs	134.2	125.1	133.7	132.0	128.9
Bad debt prov./avg. cust. loans	0.7	0.7	0.7	0.7	0.7
Loans/deposit ratio	105.3	108.8	111.7	112.8	114.0
Tier 1 capital ratio	10.8	9.8	11.3	11.5	11.7
Total capital ratio	15.2	13.9	16.0	16.3	16.5

Undemanding valuation with more catalysts

While we think BSFG's higher-than-peer loan growth will continue in 2014F, we also expect more positive catalysts from 1) M&A with Kyongnam Bank and 2) Less NIM deterioration as a result of the absence of competition with Kyongnam Bank and a smaller proportion of LCF funding.

On 2014E PBR/ROE (0.8x vs. sector-high 10.2%), we see upside potential for BSFG. We use a Gordon Growth Model to derive a TP of W19,000. Our assumptions are a sustainable ROE of 9.9%, perpetual growth of 1% and a COE of 9.7%.

Figure 1. BSFG: Forward PBR/ROE



Note: Standard deviation on normalized basis (excluding global financial crisis, Sep 08 to Nov 09)

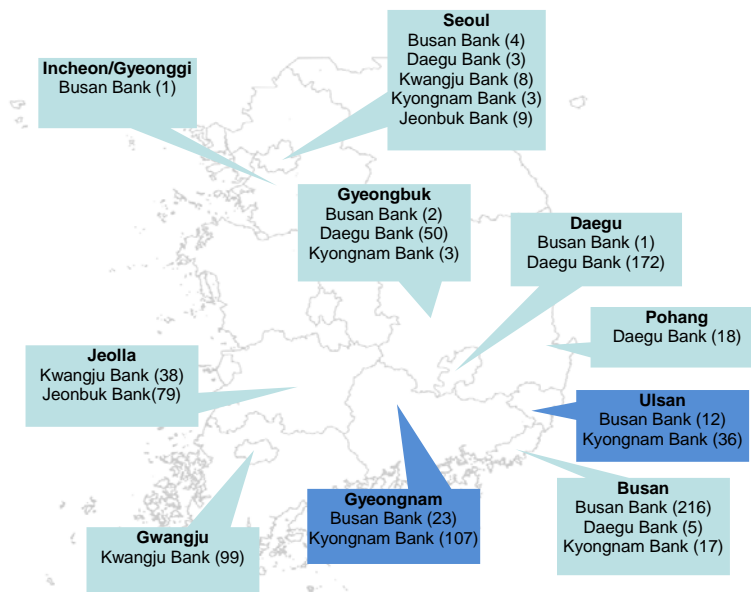
Source: DataStream, Citi Research

Inorganic growth from Kyongnam Bank M&A

On May 2, WFG spun off two regional affiliate banks, Kyongnam Bank and Kwangju Bank, as a part of its privatization plan. BSFG on Dec 2013 was selected as preferred bidder for a 57% stake in Kyongnam Bank.

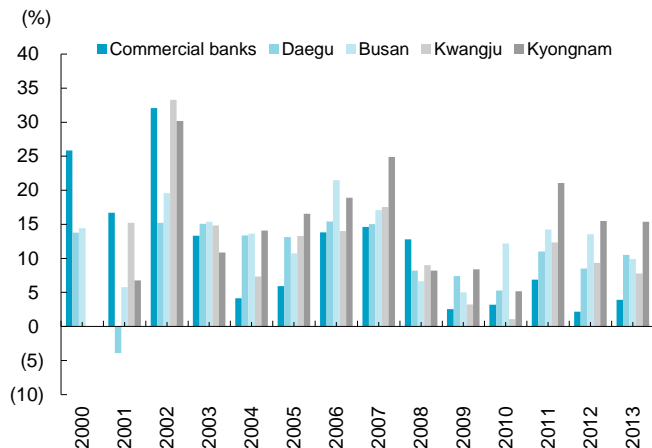
Kyongnam Bank is based in the area surrounding Busan city. It has 36 branches in Ulsan, the city with the highest GRDP per capita. Ulsan area has been showing rapid growth in GDRP as well, which is a key reason for the high loan growth of Kyongnam Bank, as shown in Figure 3.

Figure 2. Regional bank branches per region



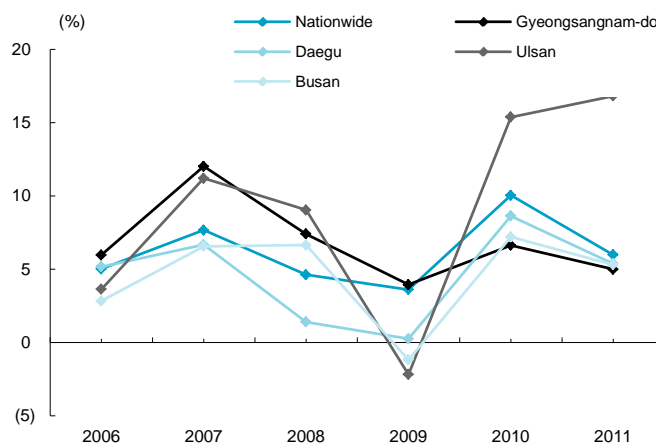
Source: Company Data, Citi Research

Figure 3. Loan growth per regional banks



Source: FSS, Citi Research

Figure 4. GRDP growth per region



Source: BOK, Citi Research

Kyongnam Bank deal would be ROE accretive

Various local press (*Edaily*, *Kyongnam Domin Ibo*) have reported an acquisition price of about W1,280bn for a 57% stake in Kyongnam Bank, equivalent to a PBR of 1x. The press has also reported that BSFG's likely funding sources for such an acquisition would be 40% from dividend income, 40% from capital-raising and the remaining 20% from retained earnings and debt issuance.

After the market close on May 9, BSFG announced capital-raising of W533bn, largely in line with market expectations (40% of funding at the announced sale price would be W520bn).

According to the funding scenario, we estimate the likely impact on BSFG from the acquisition. We believe the deal would be ROE accretive for BSFG, enhancing the attractive of the stock's valuations. With BSFG in final negotiations on the acquisition, a lower agreed deal price would offer upside to our calculations of the value accretion to BSFG.

Among the longer-term synergies, BSFG and Kyongnam Bank can better protect their NIM as until now they have often been in competition and BSFG will also save on SG&A costs it would have incurred by expanding into the Kyongnam region and opening more branches.

Figure 5. Funding scenario

Funding source	Amount (Wbn)	Details
Dividend from bank	512	Assuming 40% of total
Capital-raising	533	Announced on May 9
Debt	235	
Total	1,280	

Source: Company Data, Citi Research

Figure 6. Acquisition impact analysis based on 2013 FS

	BSFG	KNB	BSFG+KNB	Assumptions
Total assets	46,917	31,714	78,631	
Total liabilities	43,316	29,454	73,026	
Total equity	3,601	2,260	5,456	
Net profit	306	130	371	
No. of shares	193	58	232	15% discount
Tier 1 ratio	9.8%	9.7%	8.0%	
BIS ratio	13.9%	13.7%	10.5%	
ROE	10.1%	6.2%	10.7%	
BPS	18,104	38,970	18,981	
EPS	1,580	2,245	1,600	
PBR/ROE	8.3	NA	7.5	

Source: Citi Research

Figure 7. Timeline for Kyongnam bank acquisition

Date	Event
22-May	Listing of Kyongnam Bank (KNB FH)
Mid May	Final negotiation of acquisition price
End May	Final price determined
June-Aug	Funding process
Sept-Oct	Acquisition complete

Source: Company Data, Citi Research

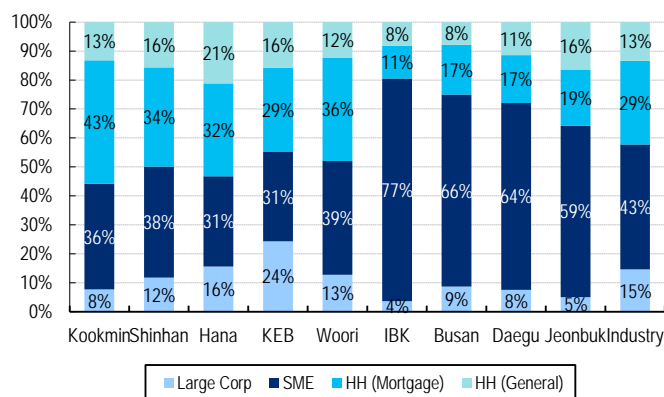
Well positioned for NIM protection

We believe BSFG is best positioned among Korean banks for loan growth and NIM protection, two factors that we view as most important for share price performance this year.

Given that SME loans are about 66% of BSFG's loan portfolio, we believe the bank will be a beneficiary of SME loan growth. SMEs have the most growth potential for banks given their funding needs and lack of alternative sources and, as the credit cycle becomes more favorable from improving macro conditions, we believe banks will be less concerned about SME asset quality.

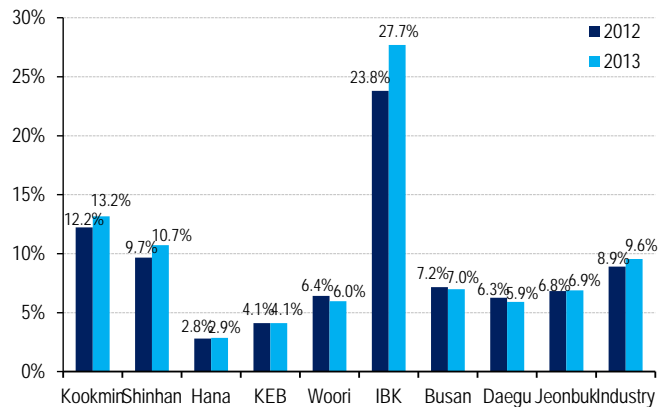
On the NIM side, low-cost funds were only about 7.0% of BSFG's funds as of end 2013. Low-cost funds typically are deposits that pay no or very little interest, such as demand deposits. In Figure 9, we show the proportion of deposits with no interest cost for individual banks. Banks with lower ratios of low-cost funding, ie, higher proportions of cost-bearing deposits, will benefit more from reduced funding costs when interest rates fall as a result of competition for loan growth.

Figure 8. Loan portfolio, end-2013



Source: FSS, Citi Research

Figure 9. LCF portion, end-2013



Source: FSS, Citi Research

Figure 10. BSFG: Earnings Forecasts

(Wbn)	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q15F	4Q15F	2013	2014F	2015F	Consensus	
												2014F	2015F
NIM	2.55	2.49	2.48	2.48	2.48	2.49	2.49	2.49	2.45	2.49	2.49		
Loan growth	3.4	3.0	2.5	1.0	2.5	2.5	2.4	1.0	11.16	10.24	8.66		
Credit cost	0.75	0.69	0.70	0.78	0.70	0.70	0.70	0.83	0.70	0.72	0.73		
Net interest income	308	309	314	317	323	331	337	340	1,154	1,248	1,330		
Non interest income	23	31	31	26	26	27	27	27	64	112	107		
Total operating income	331	340	345	343	349	357	364	367	1,219	1,360	1,437		
Loan loss provision	60	57	60	67	61	62	64	77	232	243	265		
SG&A	137	136	140	185	139	140	144	193	574	598	616		
Recurring profit	135	147	146	91	149	154	155	97	413	519	556		
Net profit	100	115	114	71	116	120	121	76	306	399	433	374	420
QoQ growth	391%	14%	-1%	-38%	63%	4%	1%	-37%					
YoY growth	6%	23%	17%	248%	16%	5%	6%	7%	16%	30%	8.5%		

Source: Bloomberg, Citi Research Estimates

BS Financial Group

Company description

BS Financial Group was established as Busan Bank in 1967 as a regional bank servicing Busan, the second-largest city in Korea, and Kyongnam province. The company has the highest market share of deposits (33.6%) and loans (27.7%) in Busan. Its branch network spans 259 locations including overseas. The firm transformed into a financial-holding company in Mar 2011 and currently has six 100%-owned subsidiaries.

Investment strategy

We rate BS Financial Group as Buy with a target price of W19,000. BSFG meets all our criteria for outperformance among Korean bank stocks, offering loan-growth momentum, NIM protection and M&A opportunity, and with the sector's highest ROE of 10.2%. The bank has an unmatched franchise in Busan City (27.7% of loans and 33.6% of deposits) and the announced acquisition of Kyongnam Bank should deliver synergies in the form of preserving NIM (previously the two banks competed for loan growth) and allowing geographical expansion at reduced cost. Completion of the acquisition would be a positive catalyst for the BSFG share price, in our view.

Valuation

Our primary valuation method is the Gordon Growth Model. P/BV is the generally accepted valuation tool for bank shares. As such, we derive a fair P/BV multiple from $(ROE_g)/(COE-g)$ and set a P/BV-based target price. We use a risk-free rate of 2.5%, an equity-risk premium of 6.0% and a beta of 1.2 to arrive at a cost of equity of 9.7%. With sustainable ROE of 9.9%, we use 12-month forward book value (FY14E P/BV of 1.0x) to derive a target price for BSFG of W19,000.

Risks

Downside risks that could prevent the BSFG shares from reaching our target price include: 1) Large exposure to the shipbuilding and shipping sectors means BSFG's NPLs could rise in a weakening economy; 2) Higher-than-expected credit costs, given high exposure to SMEs; and 3) Worse-than-expected loan growth. Upside risks that could cause the shares to overshoot our target price include: 1) Better than expected loan growth and NIM; 2) Stronger than expected economic growth; and 3) A more favorable forex environment, i.e. KRW weakness.

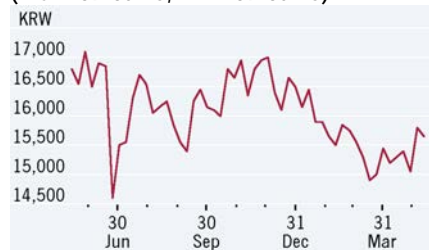
DGB Financial Group (139130.KS)

Initiate at Buy (1H): Deep Value with Unnoticed Growth Potential

Buy/High Risk	1H
Price (14 May 14)	W16,000
Target price	W20,000
Expected share price return	25.0%
Expected dividend yield	2.5%
Expected total return	27.5%
Market Cap	W2,144,851M
	US\$2,098M

Price Performance

(RIC: 139130.KS, BB: 139130 KS)



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■ **Most undervalued in our universe** — DGB FG is the most undervalued stock in our banks universe on a PBR/ROE valuation basis. The share price has come down to the historical average PER of 7x, but we think the environment for DGBFG is only getting better, implying more potential upside to valuation from this point. Our NP forecasts for 2014F and 2015F are 3.8% and 2.0% higher than consensus.

■ **Unrecognized beneficiary to export growth** — In contrast to the common view, we found that Daegu's export growth has been consistently exceeding the national average even after the start of Abenomics in 2013. The market consensus was that DGB would sacrifice the most from Abenomics given that its Daegu and Kyongbuk regional export portfolio is most similar to that of Japan. We think exporters in Daegu have competitive edge to outperform when national export growth accelerates.

■ **Fast recovery cycle for real estate in Daegu** — Daegu suffered the most from real estate turmoil in 2009 and 2010, but now the recovery speed is exceeding that of other cities. We think that, along with solid export growth, DGB should continue to deliver healthy growth of 9.5% yoy in 2014F.

■ **Sector-low LDR should help NIM protection** — DGB's LDR is 93.6%, which is about 5%p lower than its peers. Banks must keep LDR below 100% per regulation, so high LDR may trigger deposit competition as the deposit base growth is needed to expand lending. Its sector-low LDR should be a buffer to both loan and deposit growth competition and help DGB's NIM management, in our view.

■ **TP W20,000** — Our target price is derived by using a Gordon Growth model. We applied a sustainable ROE of 10.1%, perpetual growth of 1.0%, & COE of 10.5%.

■ Click [here](#) to test your own assumptions through our Interactive Modelling tool.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(WB)	(W)	(%)	(x)	(x)	(%)	(%)
2012A	274	2,045	-11.0	7.8	0.8	11.4	2.1
2013A	238	1,777	-13.1	9.0	0.8	9.1	1.8
2014E	281	2,097	18.0	7.6	0.7	10.0	2.5
2015E	325	2,425	15.7	6.6	0.7	10.6	2.5
2016E	359	2,676	10.3	6.0	0.6	10.6	3.1

Source: Powered by dataCentral

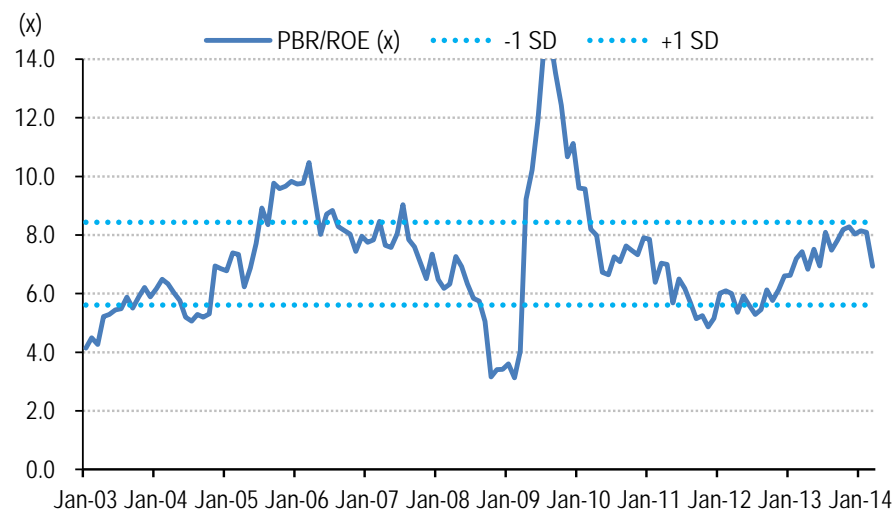
Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Valuation Ratios					
P/E adjusted (x)	7.8	9.0	7.6	6.6	6.0
P/E reported (x)	7.8	9.0	7.6	6.6	6.0
P/BV (x)	0.8	0.8	0.7	0.7	0.6
P/Adjusted BV diluted (x)	0.8	0.8	0.7	0.7	0.6
Dividend yield (%)	2.1	1.8	2.5	2.5	3.1
Per Share Data (W)					
EPS adjusted	2,045	1,777	2,097	2,425	2,676
EPS reported	2,045	1,777	2,097	2,425	2,676
BVPS	18,883	20,208	21,842	24,083	26,475
Tangible BVPS	18,883	20,208	21,842	24,083	26,475
Adjusted BVPS diluted	18,883	20,208	21,842	24,083	26,475
DPS	330	280	400	400	500
Profit & Loss (Wb)					
Net interest income	926	942	1,001	1,066	1,142
Fees and commissions	73	72	68	73	75
Other operating Income	30	-12	12	12	12
Total operating income	1,030	1,002	1,080	1,151	1,229
Total operating expenses	-493	-508	-526	-553	-576
Oper. profit bef. provisions	537	494	553	597	653
Bad debt provisions	-164	-155	-187	-180	-193
Non-operating/exceptionals	-10	-10	0	0	0
Pre-tax profit	363	329	367	417	460
Tax	-89	-85	-82	-92	-101
Extraord./Min. Int./Pref. Div.	0	-6	-3	0	0
Attributable profit	274	238	281	325	359
Adjusted earnings	274	238	281	325	359
Growth Rates (%)					
EPS adjusted	-11.0	-13.1	18.0	15.7	10.3
Oper. profit bef. prov.	-3.5	-8.0	12.1	7.9	9.4
Balance Sheet (Wb)					
Total assets	34,463	37,578	40,347	43,041	45,949
Avg interest earning assets	30,999	33,930	37,605	41,169	43,986
Customer loans	24,472	26,543	30,645	33,108	35,769
Gross NPLs	248	268	392	529	678
Liab. & shar. funds	34,463	37,578	40,347	43,041	45,949
Total customer deposits	24,763	26,784	29,480	31,733	34,157
Reserve for loan losses	361	363	432	501	575
Shareholders' equity	2,531	2,709	2,928	3,228	3,549
Profitability/Solvency Ratios (%)					
ROE adjusted	11.4	9.1	10.0	10.6	10.6
Net interest margin	2.99	2.78	2.66	2.59	2.60
Cost/income ratio	47.9	50.7	48.7	48.1	46.8
Cash cost/average assets	1.5	1.4	1.4	1.3	1.3
NPLs/customer loans	1.0	1.0	1.3	1.6	1.9
Reserve for loan losses/NPLs	145.5	135.5	110.0	94.7	84.9
Bad debt prov./avg. cust. loans	0.7	0.6	0.7	0.6	0.6
Loans/deposit ratio	98.8	99.1	104.0	104.3	104.7
Tier 1 capital ratio	11.7	11.5	10.4	10.7	10.9
Total capital ratio	15.6	15.1	13.6	14.0	14.4

Most attractive valuation merit

We view DGB FG as the most undervalued bank among our bank universe. Its forward PBR/ROE is trading near its historical average. Given what we view as an undemanding valuation, we think a positive catalyst could trigger more upside for the share price.

Our TP of W20,000 is derived by using a Gordon Growth model. Our target PBR is 0.95x, assuming sustainable ROE of 10.1%, perpetual growth of 1.0%, and COE of 10.5%.

Figure 1. DGBFG forward PBR/ROE



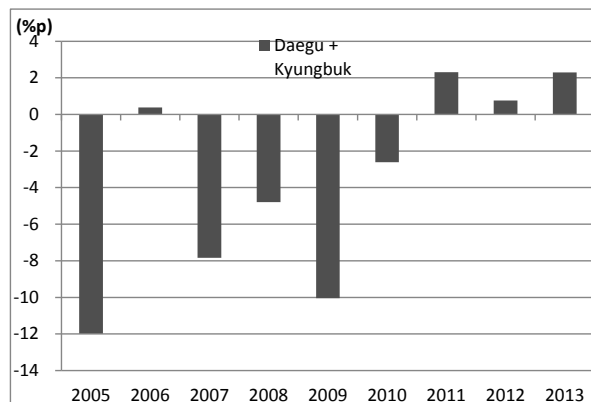
Note: Standard deviation on normalized basis (excluding global financial crisis, Sep 08 to Nov 09)

Source: DataStream, Citi Research

Two positive signs for Daegu

A positive signal about Daegu's regional economy is that Daegu's export growth has been exceeding that of the nation since 2010. IT parts, auto parts, machinery, and specialized textile represent the major part of Daegu's business portfolio. This export portfolio is quite similar to that of Japan, making investors worry about the possible negative impact from Abenomics since 2012. The JPY depreciation from Abenomics appears to have had no impact on Daegu's export growth. We believe this proves that Daegu SMEs have a competitive edge.

Figure 2. Export growth YoY vs. nationwide



Source: BOK, Citi Research

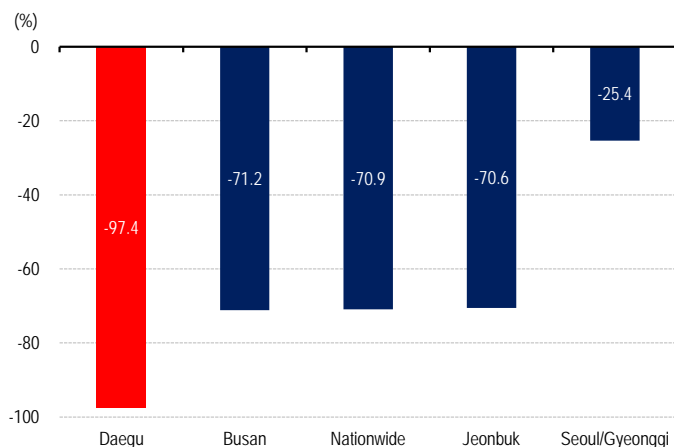
Figure 3. JPY/KRW



Source: Bloomberg, Citi Research

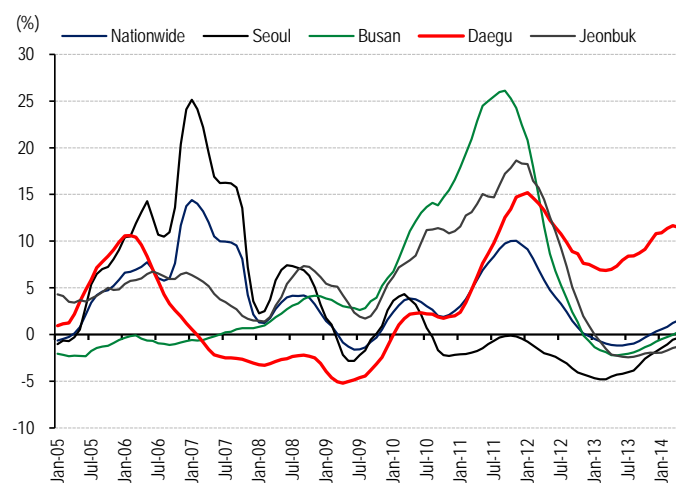
Daegu's real estate is also on a fast recovery cycle. DGBFG suffered the most from real estate PF exposure in 2010. But from the peak in 2009, the number of unsold houses decreased the most in Daegu, by 97%, while the nation overall experienced a 71% decrease. Figure 5 shows that the real estate price trend in Daegu has been lagging from 2006 to 2012, but it is now exceeding that of other major cities.

Figure 4. Number of unsold housing change since 2009



Source: KoStat, Citi Research

Figure 5. Real estate price trend by region



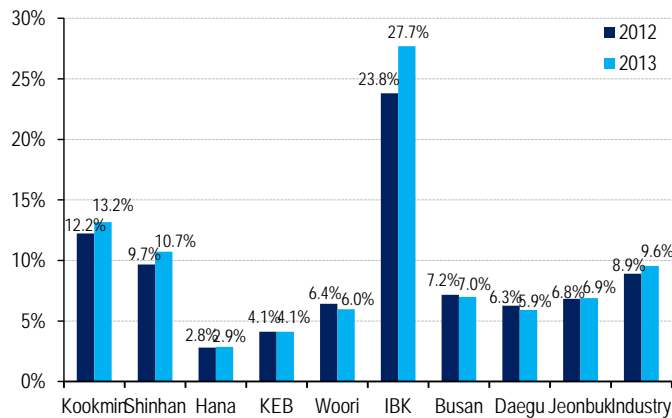
Source: Kookmin bank, Citi Research

Sector-low LDR implies less funding pressure

Among Korean banks, Daegu bank has lowest loan to deposit ratio (LDR), at about 93.6%, which is about 5%p lower than the sector average. We have pointed out that high LDR can trigger deposit competition because in order to keep LDR below 100% per regulation, banks cannot pursue loan growth without deposit growth. Daegu's sector-low LDR implies that DGBFG can increase loans without having to pay a high cost to attract a deposit base, which gives DGBFG more room to protect NIM even in a heated competitive environment.

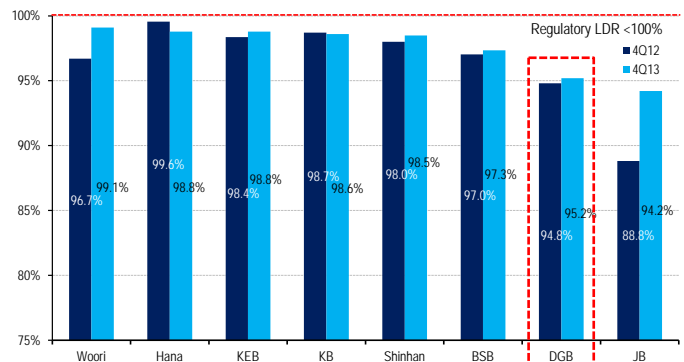
One additional positive is that DGBFG has one of the lowest low-cost funding portions within interest-bearing liabilities. We used no interest-paying deposits as the low-cost funding deposits in Figure 6. This means DGBFG has more deposits with funding costs sensitive to an interest rate decline. We are assuming that both lending and deposit rates will keep falling due to competition, so we believe the NIM of banks with less low-cost funding will be better protected.

Figure 6. LCF portion per bank



Source: FSS, Citi Research

Figure 7. LDR ratio per bank

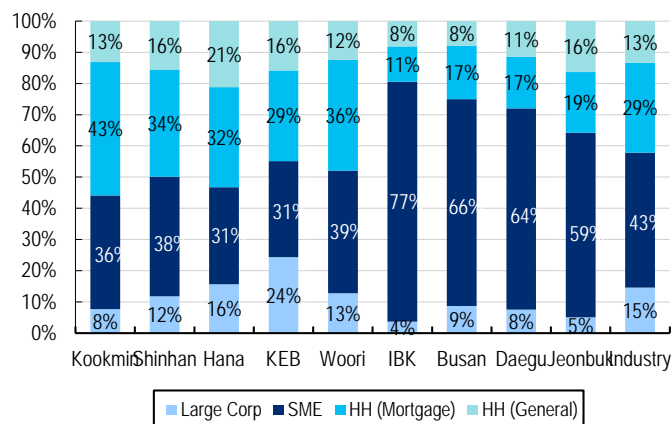


Source: Company data, Citi Research

SME loans on recovery

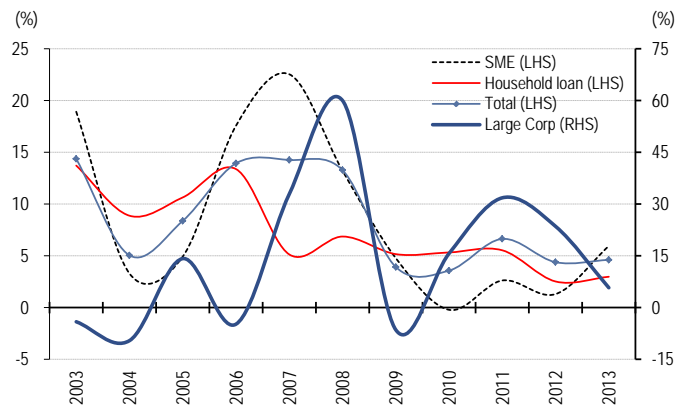
Since the global financial crisis, growth has become scarce among Korean banks. Korean banks' loan growth CAGR was muted at 3.7% but regional banks BSFG and DGBFG have boasted high loan growth based on their solid regional economy and their loan portfolio structures. SME loans represent about 64% of DGB's loan book as of end-2013 and, unlike other types of loans, SME loans always seem to be in high demand, less tied to the status of the economy.

Figure 8. Loan portfolio per bank



Source: FSS, Citi Research

Figure 9. Loan growth YoY per loan type



Source: BOK, Citi Research

Figure 10. DGBFG: Earnings Forecasts

DGBFG (Wbn)	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q15F	4Q15F	2013	2014F	2015F	Consensus	
												2014F	2015F
NIM	2.60	2.55	2.53	2.52	2.52	2.53	2.53	2.53	2.53	2.54	2.53		
Loan growth	3.0	2.7	2.7	0.8	2.5	2.5	2.0	0.8	10.84	9.52	8.04		
Credit cost	1.04	0.59	0.44	0.69	0.51	0.69	0.52	0.72	0.59	0.68	0.61		
Net interest income	247	248	252	253	259	265	270	272	942	1,001	1,066		
Non interest income	11	22	22	24	21	21	21	22	60	79	85		
Total operating income	258	271	275	277	280	286	291	293	1,002	1,080	1,151		
Loan loss provision	68	40	30	49	36	51	39	55	155	187	180		
SG&A	114	119	124	169	118	122	129	184	508	526	553		
Recurring profit	75	113	120	59	125	114	123	55	339	367	417		
Net profit	54	88	94	46	98	89	96	43	238	281	325	271	319
QoQ growth	118%	63%	7%	-51%	113%	-9%	8%	-56%					
YoY growth	-30%	65%	11%	87%	82%	1%	3%	-7%	-13%	18%	16%		

Source: Bloomberg, Citi Research Estimates

DGB Financial Group

Company description

DGB Financial Group was established in 1967 as Daegu Bank, and has been the leading bank in Daegu City (the fourth-largest city in Korea). The company has a decent foothold in neighboring areas (Kyongbuk province), providing services ranging from commercial banking to foreign exchange. Its main customers are SMEs, but it has of late begun to focus on retail customers. The bank has around 36% and 29% of Daegu/Kyongbuk's deposit and loan markets, respectively. The bank's market share has risen continuously since 2009 despite keen competition. The firm transformed into a financial holding company in May 2011.

Investment strategy

We have Buy/High Risk (1H) rating on DGB Financial Group shares and a target price of W20,000. DGB FG will be likely to maintain healthy profitability (high ROA and ROE).

Daegu city is showing strong export growth, which is better than Korea's and should support the sector-high loan growth of 9.5% yoy. The region's real estate recovery is the fastest and provides macro support.

Valuation

Our primary valuation method is the Gordon Growth Model. P/BV has been a generally accepted valuation tool for bank shares. As such, we derive a fair P/BV multiple from the (ROEg)/(COE-g) and set a P/BV-based target price. We use a risk-free rate of 2.5%, an equity-risk premium of 6.0%, and a beta of 1.3 to arrive at a cost of equity of 10.5%. With sustainable ROE of 10.1%, we use 12-month projected forward book value (FY14E P/BV of 0.95x) to derive a price of W20,000 under the Gordon Growth Model, which is our target price for DGBFG.

Risks

We assign DGB Financial Group shares a High Risk (H) rating given that the stock is deemed to be relatively volatile. Major downside/upside risks that could prevent the shares from reaching our target price are: 1) economic slowdown/acceleration in Daegu City and neighboring areas would negatively/positively affect, 2) highest foreign ownership of 73% vs. the banking sector and the Korean equity market, making it highly vulnerable to potential foreign selling pressure if Korea becomes part of a developed market portfolio for global investors; and 3) weaker/stronger competition from the larger banks.

Hana Financial Group (086790.KS)

Initiate at Buy: Disappointments Likely Just One-offs

Buy	1
Price (14 May 14)	W37,800
Target price	W45,000
Expected share price return	19.0%
Expected dividend yield	0.8%
Expected total return	19.8%
Market Cap	W10,957,995M
	US\$10,717M

Price Performance

(RIC: 086790.KS, BB: 086790 KS)



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- **Valuations look attractive** — We initiate HFG at Buy, with a target price of W45,000. The stock's 5.1% YTD decline, making it a major laggard in our Korean banks universe, has been largely due to a one-off W184bn loss, including the widely reported KT ENS scandal (W66bn) and an impairment loss (W65bn) from People's Happiness Fund. We think these issues are now behind us, and the 2014E P/B of 0.5x vs. the sector average of 0.6x offers an attractive entry point.
- **Normalized ROE undervalued** — We believe HFG's normalized ROE is underestimated by about 0.5%p. Since 2012, HFG has been booking about W70bn every year for amortization of negative goodwill on the KEB acquisition.
- **Loan growth strategy on the right track** — Based on our empirical research on Korean banks' share prices over the past 10 years, loan growth is the most significant driver. HFG was the best performer largely due to its highest loan growth among the four FHCs and strong NIM protection. HFG is especially seeking growth in the SME loan sector, which we consider as the most lucrative loan segment.
- **Well protected NIM** — HFG's NIM profile will provide protection in a falling interest rate environment, with demand deposits making up 2.9% of interest-bearing liabilities (IBL) vs. the industry average of 9.6%. When interest rates fall, banks with smaller portions of low-cost funding would benefit more because larger shares of IBL will enjoy less interest cost. Market interest rates have been falling since 2010, and HFG's NIM contraction has been the smallest among its peers.
- **TP of W45,000 implies 19% return** — Using a Gordon Growth Model, we derive a target price of W45,000. Our target PB is derived assuming a sustainable ROE of 6.2%, perpetual growth of 1.0% and COE of 9.9%.
- Click [here](#) to test your own assumptions through our Interactive Modelling tool.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(WB)	(W)	(%)	(x)	(x)	(%)	(%)
2012A	1,622	6,728	23.9	5.6	0.6	11.1	1.2
2013A	934	3,613	-46.3	10.5	0.5	5.3	0.7
2014E	1,177	4,267	18.1	8.9	0.5	5.8	0.8
2015E	1,452	5,262	23.3	7.2	0.5	6.7	1.1
2016E	1,598	5,793	10.1	6.5	0.4	6.9	1.3

Source: Powered by dataCentral

Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Valuation Ratios					
P/E adjusted (x)	5.6	10.5	8.9	7.2	6.5
P/E reported (x)	5.6	10.5	8.9	7.2	6.5
P/BV (x)	0.6	0.5	0.5	0.5	0.4
P/Adjusted BV diluted (x)	0.6	0.5	0.5	0.5	0.4
Dividend yield (%)	1.2	0.7	0.8	1.1	1.3
Per Share Data (W)					
EPS adjusted	6,728	3,613	4,267	5,262	5,793
EPS reported	6,728	3,613	4,267	5,262	5,793
BVPS	63,997	71,169	76,090	81,366	87,116
Tangible BVPS	63,997	71,169	76,090	81,366	87,116
Adjusted BVPS diluted	63,997	71,169	76,090	81,366	87,116
DPS	450	250	300	400	500
Profit & Loss (Wb)					
Net interest income	4,599	4,485	4,714	4,998	5,284
Fees and commissions	1,552	1,593	1,601	1,661	1,701
Other operating Income	1,263	205	311	337	354
Total operating income	7,414	6,283	6,626	6,997	7,339
Total operating expenses	-3,770	-3,846	-3,806	-3,902	-3,980
Oper. profit bef. provisions	3,644	2,437	2,820	3,095	3,359
Bad debt provisions	-1,627	-1,272	-1,339	-1,253	-1,315
Non-operating/exceptionals	-25	105	166	166	166
Pre-tax profit	1,992	1,270	1,647	2,008	2,210
Tax	-263	-277	-377	-442	-486
Extraord./Min. Int./Pref. Div.	-108	-59	-93	-114	-126
Attributable profit	1,622	934	1,177	1,452	1,598
Adjusted earnings	1,622	934	1,177	1,452	1,598
Growth Rates (%)					
EPS adjusted	23.9	-46.3	18.1	23.3	10.1
Oper. profit bef. prov.	52.9	-33.1	15.7	9.8	8.5
Balance Sheet (Wb)					
Total assets	284,915	295,189	313,191	325,849	339,516
Avg interest earning assets	213,727	265,018	279,819	296,700	311,426
Customer loans	196,435	203,598	219,081	232,053	245,794
Gross NPLs	1,257	1,712	2,088	2,620	3,216
Liab. & shar. funds	284,915	295,189	313,191	325,849	339,516
Total customer deposits	178,263	187,226	200,321	214,295	229,242
Reserve for loan losses	2,250	2,235	2,701	3,351	4,034
Shareholders' equity	15,724	19,932	21,289	22,745	24,331
Profitability/Solvency Ratios (%)					
ROE adjusted	11.1	5.3	5.8	6.7	6.9
Net interest margin	2.15	1.69	1.68	1.68	1.70
Cost/income ratio	50.8	61.2	57.4	55.8	54.2
Cash cost/average assets	1.6	1.3	1.3	1.2	1.2
NPLs/customer loans	0.6	0.8	1.0	1.1	1.3
Reserve for loan losses/NPLs	179.0	130.5	129.3	127.9	125.4
Bad debt prov./avg. cust. loans	1.0	0.6	0.6	0.6	0.6
Loans/deposit ratio	110.2	108.7	109.4	108.3	107.2
Tier 1 capital ratio	8.2	9.3	9.1	9.0	9.0
Total capital ratio	11.7	12.3	12.1	12.0	11.9

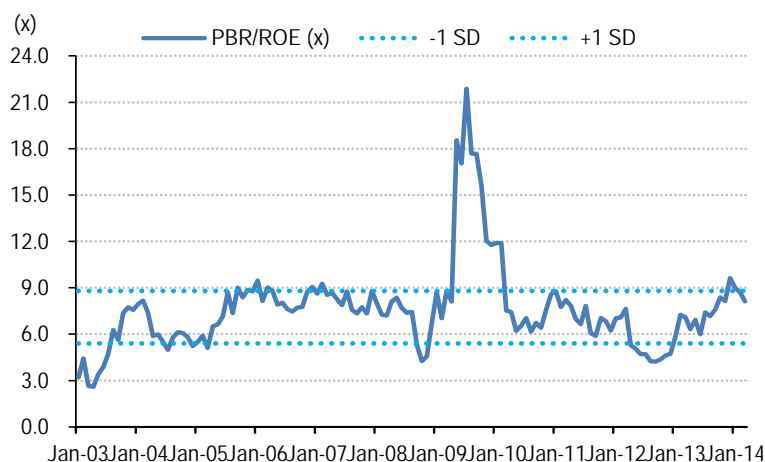
Valuations look attractive

HFG has underperformed the KOSPI by 5.1% YTD

After its recent correction, we believe HFG offers a good entry opportunity. The stock has underperformed the KOSPI by 5.1% YTD, largely due to disappointing 1Q14 results. Note that the market's ROE estimate for HFG is underestimated because HFG has been booking about W800bn depreciation cost for intangible assets from the KEB acquisition.

We have used a Gordon Growth model to derive our target price, assuming a sustainable ROE 6.2%, perpetual growth of 1% and COE of 9.9%.

Figure 1. HFG: Normalized Forward PBR/ROE



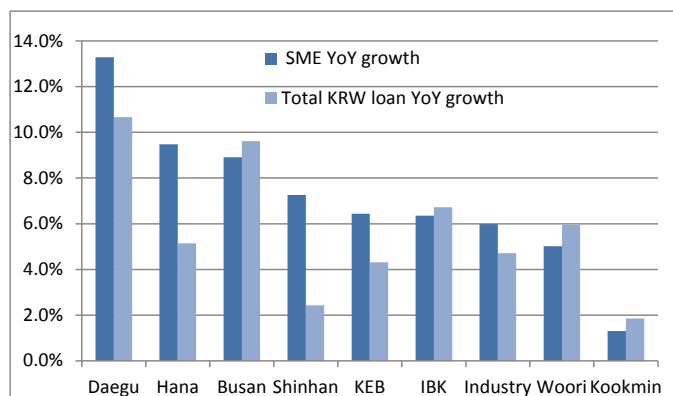
Source: DataStream, Citi Research

Loan growth focused at most lucrative segment, SMEs

Since 2013, HFG has been pushing SME loans

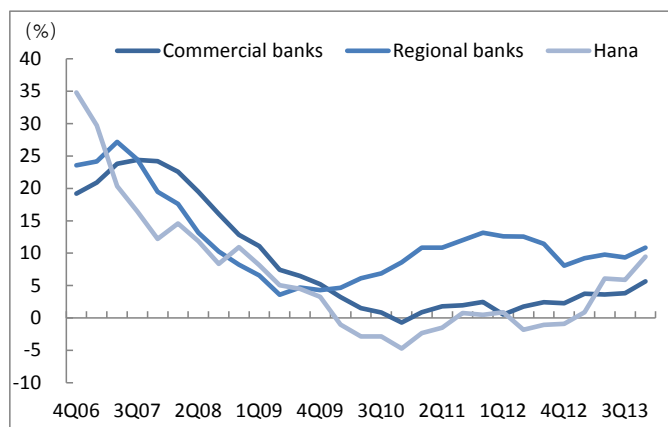
HFG was the best performing stock in our Korean banks universe in 2013, outperforming the KOSPI by 25.6%. We attribute the performance to its high loan growth. Among large banks, HFG's loan growth trailed only Woori's. We like HFG's loan growth strategy. Since 2013, it has been pushing SME loans, expanding them as much as regional banks.

Figure 2. SME & KRW Loan Growth in 2013 by Bank



Source: FSS, Citi Research

Figure 3. HFG's SME Loan Growth YoY vs. Commercial/Regional Banks



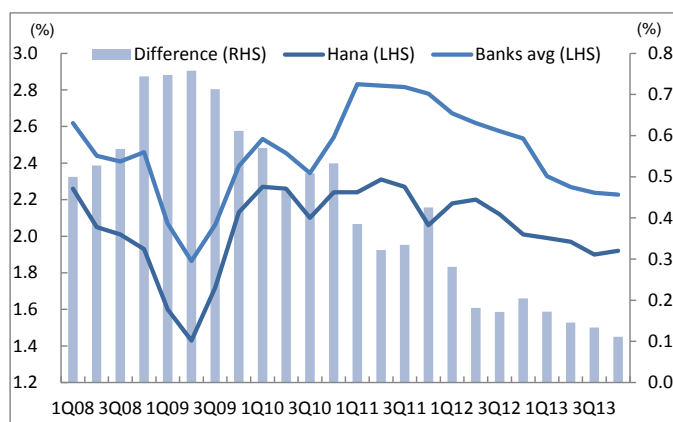
Source: FSS, Citi Research

Well positioned for falling interest rate environment

We think banks with less LCF are better positioned to shield NIMs in an interest falling environment. As a late starter relative to the four big banks, HFG had the smallest number of branches and the smallest deposit base. Because it had least demand deposits, high funding cost was a major reason for its low NIM.

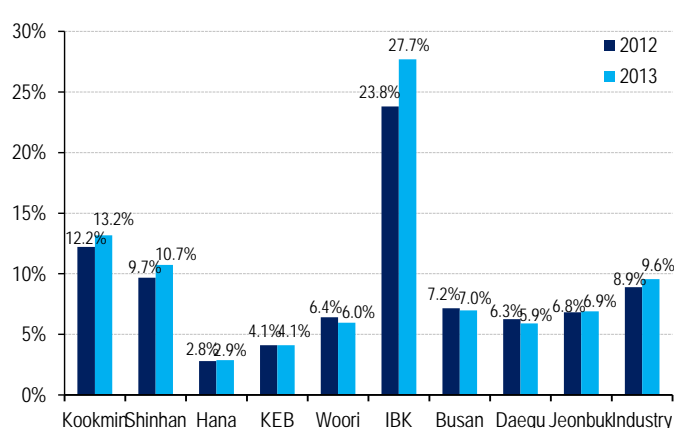
However, with interest rates starting to fall from 2011, HFG has gained. Its NIM erosion is less than that of others, thanks to a smaller demand deposit base. When interest rates fall, banks with larger portions of high-cost liabilities benefit from lower funding costs. We believe the interest rate is likely to fall further given loan growth competition.

Figure 4. NIM Difference between Hana and Sector Average



Source: FSS, Citi Research

Figure 5. LCF Portions by Bank, 2012-13



Source: FSS, Citi Research

Figure 6. HFG: Earnings Forecasts

(Wbn)	1Q14	2Q14E	3Q14E	4Q14E	1Q15E	2Q15E	3Q15E	4Q15E	2013	2014E	2015E	Consensus	
												2014E	2015E
NIM	1.91	1.92	1.92	1.92	1.91	1.92	1.91	1.91	1.93	1.92	1.91		
Loan growth	1.7	1.8	1.8	0.5	1.7	1.8	1.8	0.5	5.33	5.92	5.92		
Credit cost	0.76	0.60	0.47	0.67	0.47	0.60	0.47	0.66	0.62	0.62	0.55		
Net interest income	1,138	1,181	1,196	1,199	1,222	1,244	1,264	1,268	4,485	4,714	4,998		
Non interest income	417	495	495	505	496	496	496	511	1,798	1,913	1,999		
Total operating income	1,555	1,677	1,691	1,704	1,718	1,740	1,760	1,779	6,283	6,626	6,997		
Loan loss provision	395	319	256	368	261	338	270	384	1,272	1,339	1,253		
SG&A	916	955	939	997	953	969	954	1,026	3,846	3,806	3,902		
Recurring profit	244	402	496	339	504	433	536	369	1,165	1,481	1,842		
Net profit	193	321	389	275	394	343	418	297	934	1,177	1,452	1,180	1,416
QoQ growth	240%	67%	21%	-29%	43%	-13%	22%	-29%					
YoY growth	-34%	39%	9%	386%	105%	7%	7%	8%	-42%	26%	23%		

Source: Bloomberg, Citi Research estimates

Hana Financial Group

Company description

Established in 1971, Hana Bank is a major national commercial bank in Korea. It has raised its asset base through M&A, including a merger with Seoul Bank in December 2002. Its acquisition of Korea Exchange Bank (KEB) made its loan/deposit base the third largest in Korea, behind KBFG and WFH, and evened out its scale disadvantage against large banks. Hana became a financial-holding company structure in December 2005.

Investment strategy

We rate HFG shares as Buy, with a target price of W45,000. Its valuations look attractive vs. both its sector and regional peers. We believe HFG's earnings will remain relatively resilient given its smaller exposure to riskier construction/real-estate segments. Based on our empirical research on Korean banks' share prices over the past 10 years, loan growth is the most significant driver. HFG was the best performer largely due to its highest loan growth among the four FHCs and strong NIM protection. HFG is especially seeking loan growth in the SME sector, which we consider as the most lucrative loan segment.

Valuation

Our target price for HFG is W45,000, based on a Gordon Growth Model. Our fair P/BV multiple is derived from $(ROE_g)/(COE-g)$. Using a risk-free rate of 2.5%, an equity-risk premium of 6.0% and a beta of 1.2, we get a cost of equity of 9.9%. With a sustainable ROE of 6.2% and perpetual growth of 1.0%, our fair FY14E P/BV works out to 0.58x. P/BV is commonly used to value bank shares.

Risks

Major downside risks to our investment thesis and target price for HFG include: 1) Global economy slipping back into recession; 2) Volatile forex markets due to increased forex/trade finance exposure after the KEB acquisition; and 3) Any issue that may delay the post-merger integration process.

Shinhan Financial Group (055550.KS)

Initiate at Neutral: Focus on Valuation

Neutral	2
Price (14 May 14)	W47,600
Target price	W49,000
Expected share price return	2.9%
Expected dividend yield	1.5%
Expected total return	4.4%
Market Cap	W22,571,901M US\$22,075M

Price Performance

(RIC: 055550.KS, BB: 055550 KS)



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■ **Everything good but the valuation** — SFG has always traded at a premium to its peers historically, largely due to its higher-than-peers ROE from a strong non-bank portfolio. Shinhan's 2014F PBR/ROE valuation is now trading at +1 SD of the historical average, so we think positive aspects of the stock are priced in already.

■ **7-time champion, largely due to credit cost** — In the past 10 years, Shinhan has been among the top-3 performing bank shares 7 times. As a well-rounded player, its reasons for such outperformance include loan growth, NIM, M&A and credit cost, but the major factor was its credit cost management. We think this supports Shinhan's value, especially when the credit cycle is unclear, but now growth and NIM management are of more importance.

■ **Non-bank power weakening** — Shinhan's non-bank affiliates have been its core differentiating factor. Earnings contribution from non-banks peaked during the global financial crisis when banks' earnings were volatile. However, ROEs for its two major non-bank affiliates, Shinhan Card and Shinhan Life, are weakening.

■ **Our 2014E NP forecast is 4.8% short of consensus** — Our 2014E/2015E NP forecasts are 4.8%/9.9% short of market consensus, respectively. We believe our view that the non-bank affiliates' earnings contribution is weakening is the major reason for the gap.

■ **Risks to our view** — Upside risk would be a global macro slowdown such that SFG's strong credit management could trigger valuation multiple expansion. Downside risk would be non-bank affiliates' further earnings deterioration.

■ **TP W49,000** — Our TP of W49,000 is derived by using a Gordon Growth Model. Our assumptions are: sustainable ROE 7.6%, perpetual growth 1% and COE 8.8%.

■ Click [here](#) to test your own assumptions through our Interactive Modeling tool.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(WB)	(W)	(%)	(x)	(x)	(%)	(%)
2012A	2,260	4,693	-19.1	10.1	0.9	10.0	1.5
2013A	1,841	3,883	-17.3	12.3	0.9	7.2	1.4
2014E	1,991	4,198	8.1	11.3	0.8	7.4	1.5
2015E	2,150	4,535	8.0	10.5	0.8	7.6	1.7
2016E	2,350	4,955	9.3	9.6	0.7	7.7	1.9

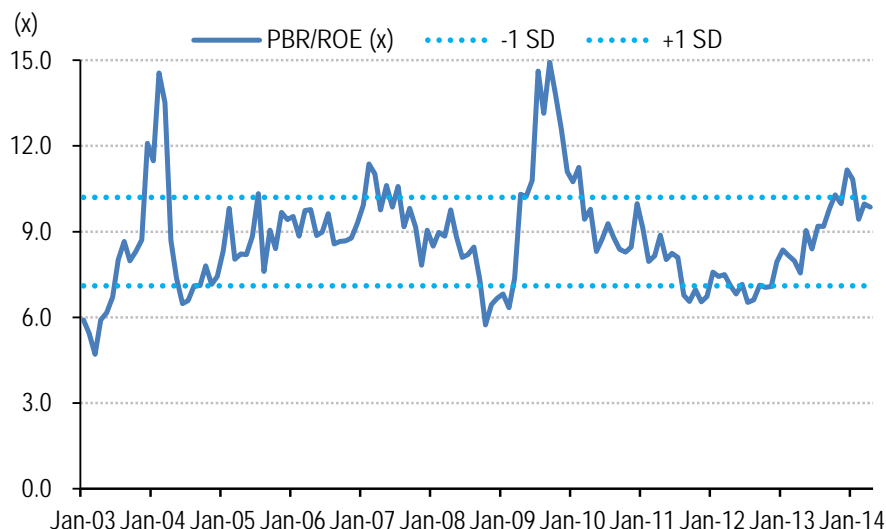
Source: Powered by dataCentral

Fiscal year end 31-Dec	2012	2013	2014E	2015E	2016E
Valuation Ratios					
P/E adjusted (x)	9.5	11.5	10.8	9.9	9.2
P/E reported (x)	9.5	11.5	10.8	9.9	9.2
P/BV (x)	0.8	0.8	0.8	0.7	0.7
P/Adjusted BV diluted (x)	0.8	0.8	0.8	0.7	0.7
Dividend yield (%)	1.6	1.5	1.6	1.8	2.0
Per Share Data (W)					
EPS adjusted	4,693	3,883	4,148	4,507	4,875
EPS reported	4,693	3,883	4,148	4,507	4,875
BVPS	52,812	55,281	58,523	62,017	68,038
Tangible BVPS	52,812	55,281	58,523	62,017	68,038
Adjusted BVPS diluted	52,812	55,281	58,523	62,017	68,038
DPS	700	650	700	800	900
Profit & Loss (Wb)					
Net interest income	6,980	6,603	6,985	7,334	7,708
Fees and commissions	1,543	1,386	1,327	1,353	1,380
Other operating Income	132	191	170	171	171
Total operating income	8,655	8,180	8,481	8,858	9,259
Total operating expenses	-4,062	-4,203	-4,361	-4,526	-4,697
Oper. profit bef. provisions	4,594	3,978	4,120	4,332	4,562
Bad debt provisions	-1,416	-1,340	-1,411	-1,395	-1,475
Non-operating/exceptionals	53	45	0	0	0
Pre-tax profit	3,231	2,682	2,710	2,937	3,087
Tax	-739	-622	-596	-646	-679
Extraord./Min. Int./Pref. Div.	-232	-219	-146	-154	-96
Attributable profit	2,260	1,841	1,967	2,137	2,312
Adjusted earnings	2,260	1,841	1,967	2,137	2,312
Growth Rates (%)					
EPS adjusted	-19.1	-17.3	6.8	8.6	8.2
Oper. profit bef. prov.	-10.9	-13.4	3.6	5.1	5.3
Balance Sheet (Wb)					
Total assets	304,939	311,297	322,932	335,421	348,789
Avg interest earning assets	274,271	284,894	295,129	308,648	322,921
Customer loans	200,289	205,723	216,835	228,548	240,893
Gross NPLs	2,244	2,286	2,149	2,208	2,382
Liab. & shar. funds	304,939	311,297	322,932	335,421	348,789
Total customer deposits	173,780	179,208	182,820	186,504	190,262
Reserve for loan losses	4,147	3,933	4,010	4,066	4,196
Shareholders' equity	26,372	27,543	29,080	30,737	32,538
Profitability/Solvency Ratios (%)					
ROE adjusted	10.0	7.2	7.3	7.5	7.5
Net interest margin	2.54	2.32	2.37	2.38	2.39
Cost/income ratio	46.9	51.4	51.4	51.1	50.7
Cash cost/average assets	1.4	1.4	1.4	1.4	1.4
NPLs/customer loans	1.1	1.1	1.0	1.0	1.0
Reserve for loan losses/NPLs	184.8	172.1	186.6	184.1	176.2
Bad debt prov./avg. cust. loans	0.7	0.7	0.7	0.6	0.6
Loans/deposit ratio	115.3	114.8	118.6	122.5	126.6
Tier 1 capital ratio	9.5	11.5	11.7	12.0	12.2
Total capital ratio	12.5	13.6	13.9	14.2	14.5

Valuation reached historical +1SD

SFG's forward PBR/ROE has reached historical +1SD. We believe loan growth and NIM management would be key for share price performance this year. While we think Shinhan is capable of achieving both, a demanding valuation has led us to assign a Neutral rating to Shinhan.

Figure 1. Shinhan's forward PBR/ROE



Note: Standard deviation on normalized basis (excluding global financial crisis, Sep 08 to Nov 09)

Source: DataStream, Citi Research

7-time champion largely due to credit cost

We note that Shinhan has been among the top-3 performers in our banks universe 7 times in the past 10 years. We also discovered that of those 7 times as a top-3 performing bank share, its credit cost management had been the main reason for its outperformance 4 times. This also proves that Shinhan is especially reliable when credit cost is the main factor for share price performance, as during the financial crisis.

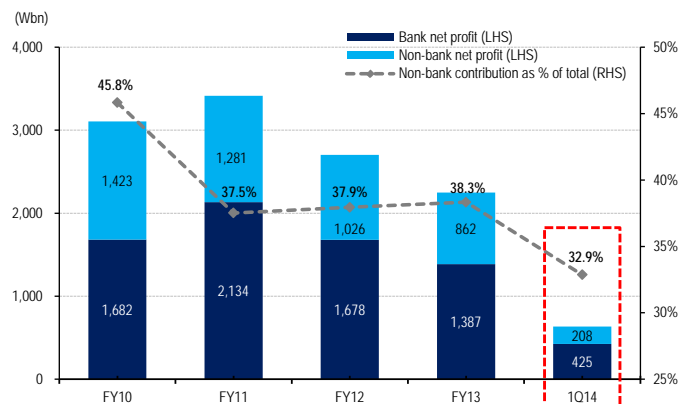
However, we think credit cost is not a major differentiating factor at this point given the benign credit cycle. We place more emphasis on loan growth, NIM and valuation at this point.

Non-bank premium weakening

Shinhan has been enjoying a premium to its peers largely due to its diversified portfolio. Among its non-bank affiliates, Shinhan Card and Shinhan Life have been key cash cows. However, earnings power for these two has been weakening, giving us less confidence to provide a higher premium than before.

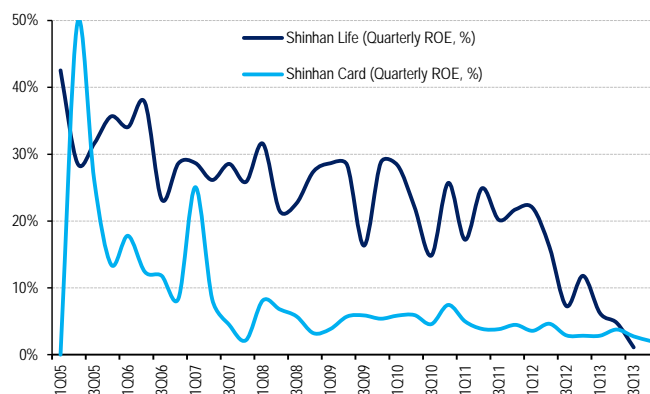
Shinhan Card, the No. 1 player in the card industry, has stable market share of 22-24%. As the dominant player, Shinhan Card has specified that the company intends to protect its profitability rather than increase marketing costs to expand market share.

Figure 2. Earnings contribution: non-bank vs. bank



Source: Company Data, Citi Research

Figure 3. ROE for Shinhan Card and Shinhan Life



Source: FSS, Citi Research

Our 2014E earnings are less than consensus

Our NP forecasts for 2014E and 2015E are 4.8% and 9.9% short of market consensus. We think our low expectations on the earnings contribution from non-bank affiliates is the major reason for the gap. We believe the weaker earnings contribution could provide downside risk to our view. Upside risk to our view could come from a global macro slowdown, which may cause valuation multiple expansions for SFG, as SFG had strong brand value in credit cost management during the financial crisis.

Figure 4. SFG: Earnings Forecast

SFG (Wbn)	1Q14	2Q14F	3Q14F	4Q14F	1Q15F	2Q15F	3Q15F	4Q15F	2013	2014F	2015F	Consensus	
												2014F	2015F
NIM	3.17	3.16	3.16	3.16	3.16	3.17	3.17	3.17	3.18	3.16	3.17		
Loan growth	1.7	1.7	1.7	0.5	1.7	1.7	1.7	0.5	3.00	5.71	5.71		
Credit cost	0.31	0.64	0.56	0.69	0.56	0.66	0.56	0.69	0.70	0.61	0.68		
Net interest income	1,658	1,728	1,756	1,764	1,793	1,827	1,856	1,865	6,603	6,907	7,341		
Non interest income	317	351	361	385	385	385	385	393	1,577	1,414	1,547		
Total operating income	1,975	2,079	2,117	2,149	2,177	2,212	2,241	2,258	8,180	8,321	8,888		
Loan loss provision	167	345	311	385	317	379	328	404	1,340	1,208	1,428		
SG&A	1,033	1,094	1,071	1,145	1,064	1,138	1,103	1,202	4,203	4,342	4,506		
Recurring profit	776	640	736	619	797	695	810	652	2,638	2,771	2,955		
Net profit	558	479	551	464	597	521	607	488	1,903	2,053	2,212	2,157	2,456
QoQ growth	63%	-14%	15%	-16%	29%	-13%	17%	-20%					
YoY growth	16%	-14%	5%	35%	7%	9%	10%	5%	-18%	8%	8%		

Source: Bloomberg, Citi Research Estimates Note: Excludes pref share dividends

Shinhan Financial Group

Company description

Shinhan Financial Group (SFG), Korea's first financial-holding company launched in 2001, offers a full line-up of financial products and services including banking, credit cards, life insurance, brokerage, and asset management. Aside from organic growth of Shinhan Bank, SFG has built up via the successful acquisitions of Choheung Bank in 2003 and LG Card in 2007. Now, SFG is one of the Big Four financial companies in Korea with a solid foothold in every key financial industry, including Shinhan Card, a clear market leader in the credit card industry.

Investment strategy

We rate Shinhan FG as Neutral. Though Shinhan has been among the top-3 performing bank shares 7 times in the past 10 years, the stock's recent run-up will limit further upside and has made it less attractive. Once Shinhan's premium base, earnings contribution from non-bank affiliates is weakening so further upside in valuation seems unlikely. The bank's credit cost management will continue to provide downside support to the stock, in our view.

Valuation

Our primary valuation method is the Gordon Growth Model. P/BV has been a generally accepted valuation tool for bank shares. As such, we derive a fair P/BV multiple from the $(ROEg)/(COE-g)$ and set P/BV-based target price. We use a risk-free rate of 2.5%, an equity-risk premium of 6.0% and a beta of 1.1 to arrive at a cost of equity of 8.8%. With sustainable ROE of 7.6%, we use 12-month forward book value (FY14E P/BV of 0.84x) to derive a price of W49,000 under the Gordon Growth Model, which is our target price for SFG.

Risks

Major downside risks are non-bank affiliates' further earnings deterioration, unfavorable credit cost trends and ROE deterioration. Upside risks are further strengthening of credit management, cheaper funding sources and improvement in non-bank earnings. Any of these risk factors could impede the shares from reaching our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Hana Financial Group (086790.KS)

Ratings and Target Price History Fundamental Research



Date	Rating	Target Price	Closing Price
1 26-Sep-11	1L	*47,000.00	29,000.00
2 7-Oct-11	Stock rating system changed		
3 7-Oct-11	*1	47,000.00	36,400.00

* Indicates change

Date	Rating	Target Price	Closing Price
4 2-Dec-11	1	*57,000.00	40,700.00
5 23-Nov-12	1	*53,000.00	32,300.00
6 3-Jul-13	1	*48,000.00	32,500.00

Date	Rating	Target Price	Closing Price
7 22-Aug-13	1	*47,000.00	34,300.00
8 18-Oct-13	1	*52,000.00	42,500.00
9 20-Nov-13	Coverage terminated		

Rating/target price changes above reflect Eastern Standard Time

Hana Financial Group (086790.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)



Date	Rating	Target Price	Closing Price
1 4-Nov-11	*REM MP	-	40,400.00

* Indicates change

Date	Rating	Target Price	Closing Price
2 4-Apr-12	*ADD MP	-	44,200.00

Date	Rating	Target Price	Closing Price
3 5-Mar-13	*REM MP	-	40,350.00

Rating/target price changes above reflect Eastern Standard Time

DGB Financial Group (139130.KS)

Ratings and Target Price History Fundamental Research



	Date	Rating	Target Price	Closing Price
1	18-Jul-11	*1M	*21,500.00	16,050.00
2	5-Oct-11	1M	*18,300.00	12,650.00
3	7-Oct-11	Stock rating system changed		

* Indicates change

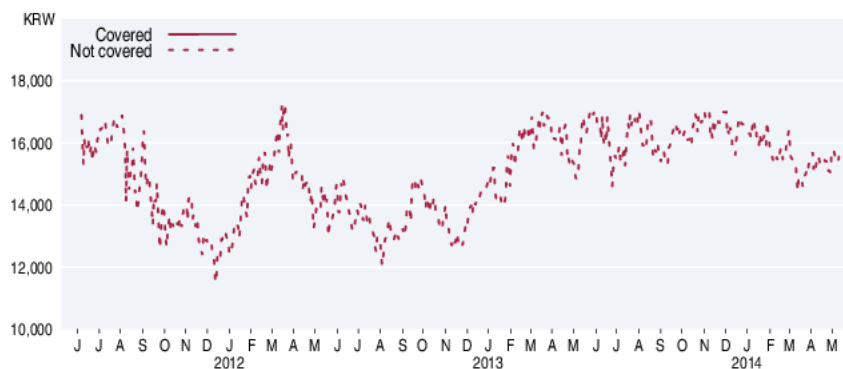
	Date	Rating	Target Price	Closing Price
4	7-Oct-11	*1H	18,300.00	13,450.00
5	4-Mar-13	*2H	18,300.00	16,850.00
6	13-May-13	2H	*18,700.00	16,350.00

	Date	Rating	Target Price	Closing Price
7	22-Aug-13	2H	*18,300.00	15,550.00
8	20-Nov-13	Coverage terminated		

Rating/target price changes above reflect Eastern Standard Time

DGB Financial Group (139130.KS)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

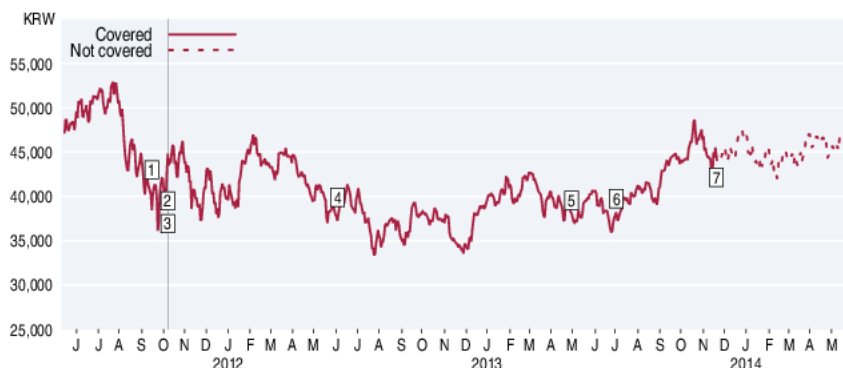


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Shinhan Financial Group (055550.KS)

Ratings and Target Price History Fundamental Research



	Date	Rating	Target Price	Closing Price
1	15-Sep-11	1L	*54,000.00	38,450.00
2	7-Oct-11	Stock rating system changed		
3	7-Oct-11	*1	54,000.00	44,800.00

* Indicates change

	Date	Rating	Target Price	Closing Price
4	4-Jun-12	1	*51,000.00	37,250.00
5	30-Apr-13	1	*49,000.00	38,100.00
6	2-Jul-13	1	*47,000.00	38,200.00

	Date	Rating	Target Price	Closing Price
7	20-Nov-13	Coverage terminated		

Rating/target price changes above reflect Eastern Standard Time

Shinhan Financial Group (055550.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)



Date	Rating	Target Price	Closing Price
[1] 4-Nov-11	*ADD MP	-	43,500.00

* Indicates change

Date	Rating	Target Price	Closing Price
[2] 3-Feb-12	*REM MP	-	46,150.00

Rating/target price changes above reflect Eastern Standard Time

BS Financial Group (138930.KS)

Ratings and Target Price History
Fundamental Research



Date	Rating	Target Price	Closing Price
[1] 5-Oct-11	1M	*17,000.00	12,800.00
[2] 7-Oct-11	Stock rating system changed		

* Indicates change

Date	Rating	Target Price	Closing Price
[3] 7-Oct-11	*1	17,000.00	13,350.00
[4] 4-Mar-13	*2	17,000.00	16,100.00

Date	Rating	Target Price	Closing Price
[5] 10-Jun-13	2	*17,300.00	14,750.00
[6] 20-Nov-13	Coverage terminated		

Rating/target price changes above reflect Eastern Standard Time

BS Financial Group (138930.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)



Date	Rating	Target Price	Closing Price
[1] 18-Jul-11	*ADD MP	-	15,300.00

* Indicates change

Date	Rating	Target Price	Closing Price
[2] 4-Apr-12	*REM MP	-	13,450.00

Rating/target price changes above reflect Eastern Standard Time

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Capital One Financial Corp., Nomura Holdings, BNP Paribas SA, Fubon FHC, Barclays PLC, Agricultural Bank of China, Industrial & Commercial Bank of China, Lloyds Banking Group PLC, Bank of China (Hong Kong), DBS Group, Bank of China, Bank of East Asia, HSBC Holdings PLC, JP Morgan Chase & Co, BS Financial Group, Sumitomo Mitsui Financial Group, Banco Bilbao Vizcaya Argentaria SA, Banco Santander, Wells Fargo & Co.

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<i>Data current as of 31 Mar 2014</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	1%	98%	1%
<i>% of companies in each rating category that are investment banking clients</i>	55%	53%	45%	58%	53%	42%

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